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If you have sold or transferred all your shares in HNA Infrastructure Company Limited, you should at once hand this circular together with the enclosed form of proxy to the purchaser or other transferees or to the bank, stockbroker or other agent through whom the sale or transfer was affected for transmission to the purchaser or the transferee.

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海航基礎股份有限公司

HNA Infrastructure Company Limited*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 357)

**PROPOSED PAYMENT OF INTERIM DIVIDENDS,
PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION,
PROPOSED VERY SUBSTANTIAL ACQUISITION
AND CONNECTED TRANSACTION,
AND
NOTICE OF EXTRAORDINARY GENERAL MEETING**

**INDEPENDENT FINANCIAL ADVISER
TO THE INDEPENDENT BOARD COMMITTEE AND
THE INDEPENDENT SHAREHOLDERS**



A letter from the Board is set out on pages 4 to 23 of this circular.

The notice given by the Company on 21 August 2015 for convening the EGM to be held at 10:00 a.m. on Friday, 30 October 2015 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC is set out on pages EGM-1 to EGM-3 of this circular. Whether or not you are able to attend the meeting, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon, and in both cases in any event not later than 24 hours before the time appointed for holding the meeting. Completion and return of the form of proxy shall not preclude you from attending and voting at the meeting or any adjourned meeting should you so desire.

* For identification purposes only

7 October 2015

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DEFINITIONS

Unless the context requires otherwise, the following expressions shall have the following meanings in this circular:

“Airport Project”	the airport project under the Investment and Construction Agreement
“Articles of Association”	the articles of association of the Company, as amended, modified or otherwise supplemented from time to time
“Board”	the board of Directors of the Company
“Company”	HNA Infrastructure Company Limited* (海航基礎股份有限公司), a joint stock company incorporated in the PRC with limited liability
“Company Construction Project”	the Airport Project comprises the new airport terminal buildings, parking lot, cargo handling service area, ground handling service area, airport fire-fighting and rescue project, airport emergency respond and rescue project, vehicles and equipment project and its relevant assets
“connected person”	shall have the meaning as defined in the Listing Rules
“Consultation Conclusions”	the consultation conclusions on risk management and internal control published by the Stock Exchange in December 2014 in relation to the review of the corporate governance code and corporate governance report
“Director(s)”	director(s) of the Company
“EGM”	the extraordinary general meeting of the Company to be held at 10:00 a.m. on Friday, 30 October 2015 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC
“Feasibility Study Report”	a feasibility study report issued by a professional institution engaged by the Parent Company in relation to the construction of the Phase II expansion project of Meilan Airport
“Group”	the Company and its subsidiaries
“Hong Kong”	Hong Kong Special Administrative Region of the PRC

DEFINITIONS

“Independent Board Committee”	an independent board committee, comprising four independent non-executive Directors, namely Mr. Deng Tianlin, Mr. Fung Ching, Simon, Mr. George F. Meng and Mr. He Linji, established to advise the Independent Shareholders on the terms of transaction under the Investment and Construction Agreement
“Independent Financial Adviser” or “First Shanghai”	First Shanghai Capital Limited, a licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO to advise the Independent Board Committee and the Independent Shareholders on the terms of the transaction under the Investment and Construction Agreement
“Independent Shareholders”	Shareholders who are not involved or interested in the transaction contemplated under the Investment and Construction Agreement
“Investment and Construction Agreement”	the investment and construction agreement dated 21 August 2015 entered into between the Company and the Parent Company in respect of the Airport Project
“Latest Practicable Date”	30 September 2015, being the latest practicable date prior to the printing of this circular for ascertaining certain information included herein
“Listing Rules”	the Rules Governing the Listing of Securities on the Stock Exchange
“Meilan Airport”	the civil airport known as 海口美蘭國際機場 (Haikou Meilan International Airport*) located in Haikou City, Hainan Province, the PRC
“NDRC”	National Development and Reform Commission of the People’s Republic of China* (中華人民共和國國家發展和改革委員會)
“Parent Company”	海口美蘭國際機場有限責任公司 (Haikou Meilan International Airport Co., Ltd.*), a limited liability company established in the PRC and the controlling shareholder of the Company

* For identification purposes only

DEFINITIONS

“Parent Company Construction Project”	other projects of the Airport Projects, including without limitation, a runway, two sets of parallel taxiway and contact roads system, parking apron, aviation food preparation area, water supply system, electricity supply system, gas supply system and communication facilities
“PRC”	the People’s Republic of China (excluding, for the purpose of this circular, Hong Kong, the Macau Special Administrative Region and Taiwan)
“RMB”	renminbi, the lawful currency of the PRC
“SFO”	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong), as amended and supplemented from time to time
“Share(s)”	share(s) of the Company listed on the Stock Exchange
“Shareholder(s)”	shareholder(s) of the Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“%”	per cent

Unless otherwise specified in this circular, the English names of the PRC entities are transliteration of their Chinese names, and are included herein for identification purposes only. In the event of any inconsistency, the Chinese names shall prevail.

LETTER FROM THE BOARD



海航基礎股份有限公司 HNA Infrastructure Company Limited*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 357)

Executive Directors:

Wang Zhen (*Chairman, Authorized Representative*)
Yang Xiaobin (*President*)
Gao Jian (*Vice Standing Executive*)
Zhang Peihua (*Vice-president and Chief Financial Officer*)

Registered Office:

Office Building of Meilan Airport
Haikou City
Hainan Province, the PRC

Non-executive Directors:

Hu Wentai (*Vice-chairman*)
Chan Nap Kee, Joseph
Yan Xiang

*Principal Place of Business
in Hong Kong:*

Units 2606A-2608
26th Floor Island Place Tower
510 King's Road
North Point
Hong Kong

Independent Non-executive Directors:

Deng Tianlin
Fung Ching, Simon
George F. Meng
He Linji

To the Shareholders,

Dear Sir/Madam,

PROPOSED PAYMENT OF INTERIM DIVIDENDS, PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION, PROPOSED VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION, AND NOTICE OF EXTRAORDINARY GENERAL MEETING

A. INTRODUCTION

Reference is made to the announcement of the Company dated 21 August 2015 in relation to the Investment and Construction Agreement. The transaction contemplated under the Investment and Construction Agreement constitutes a very substantial acquisition and a connected transaction of the Company under Chapters 14 and 14A of the Listing Rules.

* For identification purposes only

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The Independent Board Committee, comprising four independent non-executive Directors, namely Mr. Deng Tianlin, Mr. Fung Ching, Simon, Mr. George F. Meng and Mr. He Linji, who have no direct or indirect interest in the Investment and Construction Agreement and the transaction contemplated thereunder, has been established to advise the Independent Shareholders on the terms of such transaction.

First Shanghai has been appointed as the Independent Financial Adviser to advise the Independent Board Committee and the Independent Shareholders on whether the terms of the Investment and Construction Agreement and the transactions contemplated thereunder are fair and reasonable, on normal commercial terms, in the ordinary and usual course of business of the Company and in the interests of the Company and the Shareholders as a whole.

The purpose of this circular is to provide you with information in relation to, among others, the proposed payment of interim dividends, proposed amendments to Articles of Association and further information regarding the Investment and Construction Agreement and the transaction contemplated thereunder, to set out the advice from First Shanghai to the Independent Board Committee and the Independent Shareholders, the recommendation of the Independent Board Committee to the Independent Shareholders in respect of the Investment and Construction Agreement and the transaction contemplated thereunder, and to give you notice of the EGM to consider and, if thought fit, to approve the resolutions at the EGM.

B. PROPOSED PAYMENT OF INTERIM DIVIDENDS

On 21 August 2015, subject to the approval of the Shareholders, the Board proposed to pay an interim dividend of RMB0.120 per share (before tax) to be paid on or before Wednesday, 23 December 2015 (the “**2015 Interim Dividend**”) to Shareholders whose names appear on the Company’s register of members on Friday, 13 November 2015, and to authorise the Directors to take necessary actions required under the applicable laws and regulations in connection thereto.

C. PROPOSED AMENDMENTS TO ARTICLES OF ASSOCIATION

Subject to the approval of the Shareholders, the Board proposes to amend the Articles of Association. The proposed amendments to the Articles of Association are for the purposes to comply with the amendments made to the Corporate Governance Code and Corporate Governance Report by the Stock Exchange as stipulated in the Consultation Conclusions and to establish effective risk management and internal control systems in the Company.

The Board proposes to amend Article 95 and Article 108 of the Articles of Association.

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The original Article 95 is:

“The board of directors is responsible to the shareholders’ general meeting and exercise the following powers:

- (1) to convene the shareholders’ general meeting and report on its work to the meeting;
- (2) to implement the resolutions of the shareholders’ general meeting;
- (3) to decide on the Company’s business and investment plans;
- (4) to formulate the Company’s proposed annual financial budget and final accounts;
- (5) to formulate the Company’s proposals for distribution of profits and recovery of losses;
- (6) to formulate proposals for the increase or reduction of the Company’s registered capital, the issue of corporate bonds and other securities, and listing;
- (7) to prepare plans for the merger, division, dissolution or change in corporate form of the Company;
- (8) to decide on the Company’s internal management structure;
- (9) to appoint or dismiss the Company’s general manager, and based on the general manager’s recommendation, to appoint or dismiss deputy general manager and other senior management personnel, and to decide on their remuneration;
- (10) to formulate the Company’s basic management system;
- (11) to formulate the plan to amend the Articles of Association;
- (12) to prepare the Company’s plans for major acquisition or sale;
- (13) to make proposals to shareholders’ general meeting on the appointment, re-appointment or dismissal of accounting firms undertaking the audit of the Company; and
- (14) other powers conferred by the Articles of Association and the shareholders’ general meeting.

Other than sections 6, 7 and 11 in this article, which must be approved by more than two thirds of the directors, other sections above may be approved by more than half of the directors.”

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Amended as:

“The board of directors is responsible to the shareholders’ general meeting and exercise the following powers:

- (1) to convene the shareholders’ general meeting and report on its work to the meeting;
- (2) to implement the resolutions of the shareholders’ general meeting;
- (3) to decide on the Company’s business and investment plans;
- (4) to formulate the Company’s proposed annual financial budget and final accounts;
- (5) to formulate the Company’s proposals for distribution of profits and recovery of losses;
- (6) to formulate proposals for the increase or reduction of the Company’s registered capital, the issue of corporate bonds and other securities, and listing;
- (7) to prepare plans for the merger, division, dissolution or change in corporate form of the Company;
- (8) to decide on the Company’s internal management structure;
- (9) to appoint or dismiss the Company’s general manager, and based on the general manager’s recommendation, to appoint or dismiss deputy general manager and other senior management personnel, and to decide on their remuneration;
- (10) to formulate the Company’s basic management system;
- (11) to formulate the plan to amend the Articles of Association;
- (12) to prepare the Company’s plans for major acquisition or sale;
- (13) to evaluate and determine the nature and extent of the risks it is willing to take in achieving the Company’s strategic objectives;
- (14) to ensure the establishment and maintenance of appropriate and effective risk management and internal control systems;
- (15) to oversee management in the design, implementation and monitoring of the risk management and internal control systems;

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- (16) to make proposals to shareholders' general meeting on the appointment, re-appointment or dismissal of accounting firms undertaking the audit of the Company; and
- (17) other powers conferred by the Articles of Association and the shareholders' general meeting.

Other than sections 6, 7 and 11 in this article, which must be approved by more than two thirds of the directors, other sections above may be approved by more than half of the directors."

The original Article 108 is:

"The general manager of the Company is responsible to the board of directors and exercise the powers below: He is to

- (1) preside over the Company's management work in production and operation; to organize and implement board resolutions;
- (2) organize and implement the Company's annual operational plan and investment strategy;
- (3) formulate the Company's plan for installing internal management structure;
- (4) formulate the Company's basic management system;
- (5) formulate the Company's basic regulations;
- (6) offer suggestion to hire or dismiss assistant general managers and other senior management personnel (including the chief financial officer);
- (7) hire and dismiss management staff who fall outside the scope of the board's hiring and dismissal powers; and
- (8) exercise other powers conferred by the Articles of Association and the board of directors."

Amended as:

"The general manager of the Company is responsible to the board of directors and exercise the powers below: He is to

- (1) preside over the Company's management work in production and operation; to organize and implement board resolutions;
- (2) organize and implement the Company's annual operational plan and investment strategy;

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- (3) formulate the Company's plan for installing internal management structure;
- (4) formulate the Company's basic management system;
- (5) formulate the Company's basic regulations;
- (6) offer suggestion to hire or dismiss assistant general managers and other senior management personnel (including the chief financial officer);
- (7) design, implement and monitor the risk management and internal control systems;
- (8) provide a confirmation to the board on the effectiveness of the risk management and internal control systems;
- (9) hire and dismiss management staff who fall outside the scope of the board's hiring and dismissal powers; and
- (10) exercise other powers conferred by the Articles of Association and the board of directors."

It is proposed that the Shareholders shall authorize the Board to do all such things as necessary in respect of the amendments to the Articles of Association pursuant to the requirements (if any) under domestic or overseas laws or under the rules of any stock exchange on which any securities of the Company is listed.

The Board confirms that there is nothing unusual about the proposed amendments to the Articles of Association for a company listed in Hong Kong.

The proposed amendments to the Articles of Association are subject to approval of the Shareholders by way of special resolution at the EGM and the approval of and registration or filing with the relevant PRC government authorities.

D. VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

1. Background of the Phase II Expansion Project of Meilan Airport

On 2 June 2015, the NDRC approved the construction of the Phase II expansion project of Meilan Airport (NDRC Infrastructure [2015] No. 1215 (發改基礎[2015]1215號)), which means the Feasibility Study Report issued by a professional institution engaged by the Parent Company in relation to the construction of the Phase II expansion project of Meilan Airport which comprised three parts, i.e. the Airport Project, an air traffic control project and a fuel supply project, was approved. Pursuant to the approval from NDRC, the project representatives of the air traffic control project and the fuel supply project shall be CAAC Central and Southern Regional Administration (民航中南地區空管局), an independent third party of the Company and its connected persons, and Hainan Meiya Industrial Co.,

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Ltd. (海南美亞實業有限公司), a company owned as to 50% by the Parent Company, respectively, which shall be responsible for the implementation and management of such projects. The Company confirms that these two projects are independent from the Airport Project and will be carried out separately by the above-mentioned project representatives and the Company will not participate in these projects. Therefore, there will be no contractual relationship among the Company and the above-mentioned two project representatives in such projects.

According to the Feasibility Study Report and the approval from NDRC, and leveraging the previous experience of the Parent Company in airport construction, the Parent Company will act as the project representative of the Airport Project, with an estimated aggregate investment amount of approximately RMB13.838 billion. Such estimated aggregate investment amount of approximately RMB13.838 billion of the Airport Project was the estimated amount determined with reference to the applicable national and regional construction fee standards, applicable rules for composing of civil aviation airport construction project budget and interest rate of long-term bank loan of approximately 6.55%.

The Airport Project comprises the new airport terminal buildings, parking lot, cargo handling service area, ground handling service area, airport fire-fighting and rescue project, airport emergency respond and rescue project, vehicles and equipment project and its relevant assets (collectively as the “**Company Construction Project**”); and other projects including, without limitation, a runway, two sets of parallel taxiway and contact roads system, parking apron, aviation food preparation area, water supply system, electricity supply system, gas supply system and communication facilities (collectively as the “**Parent Company Construction Project**”).

Other than the reasons for and benefits of the entering into of the Investment and Construction Agreement as disclosed in this circular, the roles of the Company and the Parent Company in the construction of the Airport Project, the allocation of the Company Construction Project and the Parent Company Construction Project and the respective assets thereunder were mainly determined by taking into consideration of the following: (i) the financial challenges the Company may face for providing funds of approximately RMB13.838 billion for the construction of the whole Airport Project by itself; (ii) the current operation model of Meilan Airport between the Company and the Parent Company, details of which were set out in the paragraph headed “The Operation Plans of the Phase II Expansion Project of Meilan Airport” in this circular; and (iii) the compliance with the existing non-competition agreement between the Company and the Parent Company by allocating the relevant assets in consistent with the current operation model of Meilan Airport.

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The breakdown of the estimated aggregate investment amount of the Airport Project is set out below:

Items to be constructed	Estimated investment amount <i>(RMB'000)</i>
 The Company Construction Project	
New airport terminal buildings	3,889,100
Parking lot	443,170
Cargo handling service area	120,800
Ground handling service area	142,220
Airport fire-fighting and rescue project	36,540
Airport emergency respond and rescue project	1,030
Vehicles and equipment project	157,530
Other incidental expenses ^(Note 1)	2,367,840
	7,158,230
 The Parent Company Construction Project	
Airfield area project (including a runway, two sets of parallel taxiway and contact roads system, and parking apron)	1,775,170
Aviation food preparation area	178,070
Water supply system	53,360
Electricity supply system	357,700
Gas supply system	90,030
Communication facilities	30,000
Other ancillary facilities	1,778,410
Other incidental expenses ^(Note 2)	2,416,960
	6,679,700
 Total	13,837,930

Notes:

1. The estimated other incidental expenses include, without limitation to, land acquisition and settlement compensation of approximately RMB1,123 million, infrastructure preparation fee of approximately RMB327 million, loan interest of approximately RMB426 million, project design fee of approximately RMB172 million, etc.

2. The estimated other incidental expenses include, without limitation to, land acquisition and settlement compensation of approximately RMB1,313 million, infrastructure preparation fee of approximately RMB290 million, loan interest of approximately RMB378 million, project design fee of approximately RMB153 million, etc.

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2. Investment and Construction Agreement

On 21 August 2015, the Company and the Parent Company entered into the Investment and Construction Agreement, details of which are set out below:

Date: 21 August 2015

Parties: The Company; and
The Parent Company

Subject Matter

Pursuant to the Investment and Construction Agreement, the Company has agreed to provide funds, amounting to approximately RMB7.158 billion, to construct the Company Construction Project. The Parent Company shall act as the project representative of the Airport Project, responsible for organizing and supervising the implementation of construction plan of the Airport Project and the fund raising for the Parent Company Construction Project upon its completion and acceptance.

The Parent Company has agreed to register the ownership of the relevant assets comprising the Company Construction Project, including but not limited to, the land use rights and property ownership of the buildings, under the name of the Company upon the completion and acceptance of the Airport Project unless otherwise agreed by both the Company and the Parent Company. The ownership of the assets of the Parent Company Construction Project shall be owned by the Parent Company.

The Parent Company has also irrevocably agreed, undertaken and confirmed that, before the registration of the ownership of the assets comprising the Company Construction Project under the name of the Company, the Company has the right to occupy, utilize, benefit from and dispose of the assets comprising the Company Construction Project without making any payment to the Parent Company to the extent permitted by applicable PRC laws.

Details of the Company Construction Project

The estimated site area of new airport terminal buildings, parking lot and cargo handling service area are approximately 296,000 square meters, 93,900 square meters and 28,400 square meters, respectively. The site area of lands of the new airport terminal areas, working areas and cargo handling areas are approximately 113.4 hectares, 125.5 hectares and 14 hectares, respectively. The above figures of the area of buildings and lands of the Company Construction Project are subject to adjustment based on the final design of the Airport Project.

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According to the Feasibility Study Report, it is estimated that the area of the land to be expropriated and used for the purposes of the construction of Phase II expansion project of Meilan Airport is approximately 549 hectares, of which the land of approximately 252.9 hectares will be used for the Company Construction Project under the Investment and Construction Agreement. The estimated value of the above-mentioned land of approximately 252.9 hectares to be used for Company Construction Project is approximately RMB1.5073 billion based on a valuation report issued by a professional third party valuer engaged by the Company.

Consideration and Payment

Pursuant to the Investment and Construction Agreement, the Company will provide funds covering all the costs and expenses in the construction of the Company Construction Project of an estimated total amount of approximately RMB7.158 billion, comprising (i) construction costs of approximately RMB4.790 billion; (ii) other incidental expenditures of approximately RMB1.609 billion; (iii) contingency reserve of approximately RMB0.327 billion; (iv) loan interest of approximately RMB0.426 billion; and (v) other initial costs and expenses of approximately RMB5.3 million, according to the Feasibility Study Report. The Feasibility Study Report was prepared by China Airport Construction Group Corporation (中國民航機場建設集團公司) (the “CACC”), who was engaged by the Parent Company in relation to the construction of the Phase II expansion project of Meilan Airport. CACC, founded in 1954, is a state-owned enterprise and a subsidiary of China Capital Airport Group Company (首都機場建設集團公司). CACC was able to provide all range of services needed for civil airport design and construction and obtained Grade-A certificates in project design (甲級工程設計), project consultation (甲級工程諮詢) and geo-technical engineering (甲級岩土工程). The CACC participated in the construction of a lot of PRC airports and also participated in the construction of a few international airports, including the airport in Lao People’s Democratic Republic.

The estimated total amount of the Company Construction Project was determined with reference to the estimated construction costs contained in the Feasibility Study Report. Such construction costs were determined with reference to relevant public official documents in relation to construction cost and fees of Haikou City and the standard fees in civil aviation industry of the PRC. Specifically, for the cost relating to construction and installation projects (建築安裝工程), it was determined with reference to the relevant costs of construction and installation in Haikou City, which are specified under the Financing Quota of Construction Project in Hainan Province (海南省建築工程計價定額) (the “**Construction Project Quota**”) and the Comprehensive Quota of Installation Project in Hainan Province (海南省安裝工程定額) (the “**Installation Project Quota**”). Construction Project Quota was published on 1 December 2011 and has taken effect from 1 July 2012 in Hainan Province. According to the official website of the Standard Quota Information of Engineering Construction in Hainan Province (海南省工程建設標準定額信息

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網), the Construction Project Quota is the basis of the estimated budget for design preparation, construction drawings, bidding offers, contract price, settlement price and project construction costs. The Installation Project Quota was published in 2008 and provides quota information of installation engineering relating to mechanical equipment, electrical equipment, industrial pipelines, ventilation and air conditioning and etc. Both the Construction Project Quota and the Installation Project Quota are publication in the PRC and are available to the general public.

For airport and runway project (機場跑道工程), it was determined with reference to the provision for budget of civil airports in the PRC under relevant PRC laws, e.g., the Budget Quota of Civil Airports Engineering (民用機場工程預算定額). The Budget Quota of Civil Airports Engineering was first published by Civil Aviation Administration of the PRC in 1994 and has been updated from time to time. The budget of civil airports construction in the PRC is subject to review and approval of the relevant governmental authorities. The construction budget of the Phase II expansion project of Meilan Airport was firstly reviewed by China Civil Aviation Engineering Consultation Co., Ltd. (中國民航工程諮詢公司) in 2013 and then, as mentioned before, approved by the NDRC in 2015.

For other construction items, it was determined with reference to the Method for Preparation of the Budget for the Construction of Civil Airport (民航機場建設工程概算編製辦法) (the “**Method**”). The Method was issued by the Airport Department of the Civil Aviation Administration of the PRC (中國民用航空局機場司) on 21 April 2008 and has been mainly applicable to civil airport construction projects invested by the PRC government directly or through capital injection. According to Chapter 7 of the Method, other construction costs are costs which shall be paid during the total investments of the construction projects but are not suitable for being included in the costs of construction, installation and equipment purchase. Details of other construction costs specified in the Method include costs relating to land expropriation and relocation, construction management, exploration and design, temporary facilities, bidding agency, staff training, furniture, trial flying, construction loans interests and etc. To calculate items under the other construction costs, taking temporary facilities costs of the expansion construction project for example, the costs will be mainly determined with reference to specific ratio of temporary facilities determined by the amount of the construction costs ranging from 0.4% to 1.2%.

The construction costs contained in the Feasibility Study Report were estimated based on the assumption that the long term bank interest rate is 6.55% and no adjustment of such construction costs will be made for change of prices during the construction period.

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The Directors confirm that the estimated aggregate amount of approximately RMB7.158 billion is the estimated maximum investment amount in relation to the construction of the Company Construction Project based on the Feasibility Study Report and other currently available information. Subject to the project completion and settlement report of the Airport Project to be approved (if required) by relevant authorities and the assets invested by and registered under the name of the Company upon completion and acceptance of the Airport Project, such estimated maximum investment amount shall be further adjusted. The Directors further confirm that the Company shall seek approval from the Shareholders and make additional disclosure pursuant to the applicable compliance requirements under the Listing Rules if and when the aggregate investment amount for the construction of the Company Construction Project is expected to exceed RMB7.158 billion due to any unforeseeable reasons that may be beyond the control of the Company.

Unless otherwise mutually agreed by the Company and the Parent Company during the process of construction of the Airport Project, the costs and expenses in relation to any project agreements to be entered into between the Company and the Parent Company, and any third parties shall be paid by the Company directly to such third parties, and in relation to any equipment supply agreements to be entered into between the Company and any suppliers directly to such suppliers. The selection of third party contractors and suppliers will be mainly through public tendering procedures. The Company will participate in such selection procedure and will take a leading role to determine which third party contractors and suppliers to use in relation to the Company Construction Project. With respect to other costs and expenses incurred in the process of the construction of the Company Construction Project, since the Company is not the project representative, it may not be a party of such contracts or the payer of such amounts, thus the above-mentioned amount (such as government-related fees) needs to be paid through the Parent Company. Such amount shall be paid to the Parent Company by the Company upon the Parent Company's request and provision of relevant supporting documents on a back-to-back basis.

The Company intends to fund the Company Construction Project by the followings:

- (i) Asset-backed securities

The Company has completed the asset-backed securitization plan amounted to RMB1.2 billion on 2 July 2015, of which approximately RMB0.95 billion will be utilized in the construction of the Company Construction Project;

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- (ii) The loan from the China Development Bank, Hainan Branch regarding the Company Construction Project

The China Development Bank, Hainan Branch issued a letter of intention in relation to the long-term project loan of the Airport Project amounting to approximately RMB8 billion, pursuant to which a 20-30 years long-term project loan is to be provided to the Airport Project. It is currently expected that the Company may obtain a long-term project loan credit amounting to approximately RMB4.16 billion, which will be utilized in the construction of the Company Construction Project;

- (iii) Issuance of bonds

The Company plans to issue public offering bonds or make private placement amounting to approximately RMB1 to 2 billion with a term of two to three years, proceeds from which will be utilized in the construction of the Company Construction Project; and

- (iv) Working capital

The Company will use part of its working capital generated from its operation activities to support the construction of the Company Construction Project.

The Operation Plans of the Phase II Expansion Project of Meilan Airport

Pursuant to the current operation model of Meilan Airport, Meilan Airport is operated by the Company and the Parent Company jointly. The Company is engaged in both aeronautical and non-aeronautical businesses. Its aeronautical business consists of the provision of airfield services, terminal facilities, ground handling services, and passenger and cargo handling services. Its non-aeronautical business includes leasing of commercial and retail spaces at the Meilan Airport, airport-related business franchising, advertising, car parking, tourism services and sales of duty-free and consumable goods. The Parent Company is engaged in the maintenance of runways, provision of airfield area related services and logistical support services, which is in line with the disclosure made by the Company in its prospectus upon its listing.

As disclosed in the Company's prospectus, in respect of the aeronautical business, the Company shares the aircraft movement fees, the passenger charges and the basic ground handling services fee income with the Parent Company on the basis of 75% to the Company and 25% to the Parent Company. The Parent Company also charges the Company for provision of the security guard service, cleaning and environment maintenance, sewage and refuse processing, power and energy supply and equipment maintenance, passengers and luggage security inspection, and other services required by

LETTER FROM THE BOARD

the Company. Based on the current operation model of Meilan Airport, it is expected that the revenue arisen from the utilization of the assets of the Company Construction Project, including, without limitation to, the aircraft movement fees and the passenger charges (to be shared by the Parent Company on a certain percentage to be agreed between the Company and Parent Company with reference to the above 75% (Company) and 25% (Parent Company) basis as the Parent Company will operate assets such as the runways which contribute part of these revenues), ground handling services fees, cargo handling services fees, leasing income of commercial and retail spaces, advertising fees and car parking fees, will be attributable to the Company.

Pursuant to the Investment and Construction Agreement, the Company and the Parent Company have agreed to operate the assets of the Phase II expansion project of Meilan Airport by reference to the above-mentioned operation model of Meilan Airport and in accordance with any other agreement (in relation with the operation of Meilan Airport and distribution of revenue between the Company and the Parent Company) to be negotiated and entered into between the Company and the Parent Company before the Phase II expansion project of Meilan Airport is put into operation.

Expected Completion Date of the Construction of the Airport Project

The construction of the Airport Project is expected to be completed and approved by relevant authorities by the end of 2020. As such, the Company may not be able to obtain benefits within a short time.

Reasons and Benefits of Entering into the Investment and Construction Agreement

The Directors consider that the Investment and Construction Agreement will benefit the Company for the following reasons:

Potential growth of aviation industry and tourism industry and existing capacity constraints

In the face of new development trend of the domestic economy, the civil aviation industry in China saw a number of favorable policies and maintained rapid growth in the past years. In 2014, China's civil aviation industry achieved total transport turnover of 74.85 billion tons/km, passenger transportation volume of 390 million as well as cargo and mail traffic volume of 5.933 million tons, representing a year-on-year growth of 11.4%, 10.4% and 5.7%, respectively.

In 2014, despite the pressure and challenges caused by the domestic economic downturn and the serious natural disasters, the tourism of Hainan Province remained rapid growth benefited from certain favorable factors such as the overall stable development of the civil aviation industry and the construction of the Hainan International Tourism Island. Both the total number of tourists and the total tourism

LETTER FROM THE BOARD

revenue outpaced the average rate of the national tourism. The number of domestic and foreign tourists staying overnight for the year amounted to 47.8908 million, representing a year-on-year growth of 10.6%, of which, 40.6018 million foreign tourists staying overnight were received and the tourism revenue amounted to RMB50.653 billion, representing a year-on-year growth of 10.56% and 13.2% respectively.

Driven by the accelerated transformation and upgrading of the tourism, the local government of Hainan Province will further standardize and integrate the resources of the tourism industry of the whole province, promote the attractive and differentiated development thereof and fully explore the development potential of this industry. Several key large-scaled tourism projects, such as an integrated project of leisure and entertainment named “Mission Hill • Lan Kwai Fong • Haikou”, the Hainan Aerospace Theme Park and the Hainan Sino-Thai Cultural Resort, are under construction and development and are expected to be put into operation in the near future. Furthermore, the local government of Hainan Province will also further optimize transportation infrastructure, including the construction of the West Ring High-Speed Railway, Dinghai Bridge and the Qionghai Boao Airport and the open to traffic of Tunchang – Qiongzong Highway. In addition, with a view to further capitalize on the duty free policy of Hainan Province and to facilitate the construction of Hainan International Tourism Island, after obtaining approvals from or reporting to relevant government authorities, the Ministry of Finance has decided, with effect from 20 March 2015, to adjust and fine-tune part of the duty free policy of Hainan Province to further easing the duty free policy of Hainan Province, which will in turn help driving the sustainable growth of the tourism and the consumption of Hainan Province and thereby, directly or indirectly, boosting the passenger traffic of Meilan Airport.

Based on the above, the Directors believe that the tourism in Hainan Province is expected to further grow, which will drive sharp increases of passenger and cargo flow and aircraft movements to and from Meilan Airport. In addition, being located in the capital of Hainan Province, Meilan Airport is situated at a strategic location and enjoys a distinguished geographical advantage and thus has bright prospects. However, Meilan Airport is currently operating above its design capacity with a passenger throughput of over 10 million for five consecutive years and an expected passenger throughput of over 15 million in 2015. By investing and constructing the Company Construction Project, the Company can seize development opportunities, further promote the throughput of Meilan Airport to hit a new high and resolve the existing limitation of passenger throughput of Meilan Airport.

Minimizing relevant financial cost and preventing potential adverse effect on revenue

If the Company is to acquire the Company Construction Project after its completion instead of entering into the Investment and Construction Agreement, it is estimated that the Company shall assume estimated tax expenses of approximately RMB218.33 million comprising approximately RMB3.58 million of stamp duty and approximately RMB214.75 million of deed tax in total computed in accordance with the estimated aggregate construction cost of the Company Construction Project and the requirements under relevant PRC laws and regulations.

LETTER FROM THE BOARD

In addition, the considerations payable under future acquisitions after the completion of the Company Construction Project instead of the contemplated investment and construction is expected to be higher because of the estimated increase in value of the assets of the Company Construction Project in the coming three-to-five-year period during which the Company Construction Project will be constructed.

Furthermore, pursuant to the current arrangement under the Investment and Construction Agreement, the Company has the right to occupy, utilize, benefit from and dispose of the assets comprising the Company Construction Project before the registration of the ownership of such assets. The Company will be able to operate and realize revenue in accordance with the current operation model of Meilan Airport sooner and prevent potential adverse effect on revenue caused by the time consumed due to the procedures and facilities required for conducting acquisition of the Company Construction Project.

Ensuring high efficiency and quality of the Company Construction Project and enhancing the economy of scale in the operation of the Company

By making investment directly into the construction of the Company Construction Project, the Company will be able to accelerate and oversee the process of the construction of the Company Construction Project to ensure its efficient completion and high quality. By appointing the Parent Company as the project representative, the Parent Company can play a positive role in facilitating the relevant governmental approval process and the Company can leverage the Parent Company's previous experience in airport construction, such as the terminal expansion project of Meilan Airport.

Upon completion of the Phase II expansion project of Meilan Airport, the Company will benefit from the economy of scale in conducting the existing airport facilities operation together with new facilities provided by the Phase II expansion project of Meilan Airport.

The Directors are satisfied that (i) the terms and conditions of the Investment and Construction Agreement have been negotiated on an arm's length basis and are on normal commercial terms; (ii) the transaction contemplated under the Investment and Construction Agreement will be conducted in the ordinary and usual course of business of the Company; and (iii) the terms of such transaction are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Each of Mr. Wang Zhen, Mr. Hu Wentai, Mr. Yang Xiaobin, Mr. Gao Jian and Mr. Zhang Peihua is interested in the above transaction as they are delegates from the connected shareholder of the Company, and therefore had abstained from voting on the relevant resolution of the Board approving the same.

LETTER FROM THE BOARD

Financial Effects of the Investment and Construction Agreement

(a) Effects on Assets, Liabilities, and Net Assets

As disclosed in the interim report of the Company for the six months ended 30 June 2015, the Group had a total assets of RMB5,705,229,324 and the liabilities of the Group was RMB2,620,312,590. It is the Group's present intention to pay the consideration of approximately RMB7.158 billion with the Group's cash at bank and through external financing activities.

As the fee payable by the Company to the Parent Company under the Investment and Construction Agreement will form part of the consideration for the future acquisition of the Airport Project, the decrease in bank balance and cash of the Group and increase of other financings will be offset by the future increase of assets in relation to the Airport Project, the Board expects that there will be no significant impact on the net assets of the Group upon completion of the transaction contemplated under the Investment and Construction Agreement.

(b) Effect on Earnings

Upon completion of the transaction contemplated under the Investment and Construction Agreement, the Directors do not expect such transaction will have any material impact on the earnings of the Group until the Airport Project is put into operation.

Listing Rules Implications

As each of the asset ratio and consideration ratio (as defined in Rule 14.07 of the Listing Rules) for the transaction contemplated under the Investment and Construction Agreement is more than 100%, such transaction constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules.

As the Parent Company, holding 50.19% shareholding interest of the Company, is the holding company of, and therefore a connected person of the Company under the Listing Rules, the transaction contemplated under the Investment and Construction Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Therefore, such transaction is subject to reporting, announcement and independent shareholders' approval requirements.

LETTER FROM THE BOARD

E. INDEPENDENT SHAREHOLDERS' APPROVAL AND COMPLIANCE WITH THE LISTING RULES

The Company will seek the approval of the Independent Shareholders at the EGM for the Investment and Construction Agreement and transaction contemplated thereunder. The Company will comply with Chapter 14 and Chapter 14A of the Listing Rules in respect of the transaction under the Investment and Construction Agreement.

F. EGM

Set out on pages EGM-1 to EGM-3 of this circular is the notice given by the Company on 21 August 2015 for convening the EGM to be held at 10:00 a.m. on Friday, 30 October 2015 at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC. At the EGM, among other things, a special resolution will be proposed to consider, and if thought fit, to approve the proposed amendments to Articles of Associations, and ordinary resolutions will be proposed to consider, and if thought fit, to approve the proposed payment of interim dividends and the Investment and Construction Agreement.

Pursuant to Rule 13.39(4) of the Listing Rules, voting at the EGM will be conducted by poll. As at the Latest Practicable Date, the Parent Company, which holds 50.19% voting rights at a general meeting of the Company, and has controls over the voting right in respect of its shares, and is interested in the transaction contemplated under the Investment and Construction Agreement, will abstain from voting at the EGM for aforesaid resolution regarding the Investment and Construction Agreement pursuant to the Listing Rules. Other than the Parent Company, there is no other Shareholder who has a material interest in the transaction contemplated under the Investment and Construction Agreement. The poll results will be published on the websites of the Company and of the Stock Exchange following the EGM.

A form of proxy for use at the EGM is accompanied with this circular. Whether or not you are able to attend EGM, you are requested to complete and return the accompanying form of proxy in accordance with the instructions printed thereon, and in both cases in any event not later than 24 hours before the time appointed for holding the EGM. Completion and return of the form of proxy shall not preclude you from attending and voting at the EGM or any adjourned meeting should you so desire.

The reply slip for the EGM is also enclosed with this circular. You are reminded to complete and sign the reply slip and return the signed reply slip to the office of the Secretary Office to the board of directors of the Company at Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC no later than 10 October 2015 (Saturday) in accordance with the instructions printed thereon.

LETTER FROM THE BOARD

G. BOOK CLOSURE

The Company's register of members will be closed from 30 September 2015 (Wednesday) to 30 October 2015 (Friday) (both days inclusive), during which time no transfer will be registered. In order to qualify for attending and voting at the EGM, shareholders must deliver their instruments of transfer, accompanied by the relevant share certificates and forms of transfer, to the Company's Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited, located at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on 29 September 2015 (Tuesday).

The Company's register of members will be closed from Sunday, 8 November 2015 to Friday, 13 November 2015, during which time no transfer of shares will be registered. In order to qualify for the entitlement of the 2015 Interim Dividend, shareholders must deliver their instruments of transfer, accompanied by the relevant share certificates and forms of transfer, to the Company's Share Registrar and Transfer Office, Computershare Hong Kong Investor Services Limited, located at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Friday, 6 November 2015. The Company will pay the interim dividend on or before Wednesday, 23 December 2015 upon the approval of the EGM.

H. GENERAL INFORMATION

The Company is principally engaged in the management and operation of aeronautical and non-aeronautical businesses at Meilan Airport in Hainan Province, the PRC.

The Parent Company is principally engaged in ancillary airport service business. The Parent Company is a company established in the PRC, of which the single largest shareholder is Hainan Development Holdings Co., Ltd.* (海南省發展控股有限公司), which is in turn wholly-owned by State-owned Assets Supervision and Administration Commission of Hainan Province (海南省政府國有資產監督管理委員會).

LETTER FROM THE BOARD

I. RECOMMENDATIONS

The Board, including the Independent Board Committee, is of the opinion that the terms and conditions of the Investment and Construction Agreement are fair and reasonable so far as the Company is concerned and are in the interests of the Company and the Shareholders as a whole. Accordingly, the Board (including the Independent Board Committee) recommends that the Independent Shareholders vote in favour of the resolution set out in the notice of the EGM for approval of the Investment and Construction Agreement and the transaction contemplated thereunder.

The Directors also believe that all the other resolutions proposed for consideration and approval by the Shareholders at the EGM are in the best interests of the Company and the Shareholders as a whole. Accordingly, the Directors recommend that all the Shareholders vote in favour of all the resolutions to be proposed at the EGM as set out in the notice of EGM.

J. ADDITIONAL INFORMATION

Your attention is drawn to the letter from the Independent Board Committee which contains its recommendation to the Independent Shareholders as to the voting at the EGM regarding the Investment and Construction Agreement and the transaction contemplated thereunder, and the letter from the Independent Financial Adviser containing among others, its advice to the Independent Board Committee and the Independent Shareholders in relation to the Investment and Construction Agreement and the transaction contemplated thereunder, details of which are set out on pages 26 to 46 respectively of this circular. None of the members of the Independent Board Committee has any material interest relating to the Investment and Construction Agreement and the transaction contemplated thereunder.

Your attention is also drawn to the additional information set out in the appendices to this circular. A form of proxy and a copy of reply slip for use at the EGM are enclosed with this circular.

Yours faithfully,
By order of the Board
HNA Infrastructure Company Limited*
Wang Zhen
Chairman

Hainan, the PRC
7 October 2015

* For identification purposes only



海航基礎股份有限公司
HNA Infrastructure Company Limited*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 357)

7 October 2015

To the Shareholders

Dear Sir/Madam,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION

We have been appointed as members of the Independent Board Committee to advise the Shareholders in respect of the Investment and Construction Agreement and the transaction contemplated thereunder that are subject to the Independent Shareholders' approval, details of which are set out in the letter from the Board in this circular to the Shareholders. Unless the context otherwise requires, terms used in this letter shall have the same meanings as defined in this circular.

First Shanghai has been appointed as the Independent Financial Adviser to advise us regarding the Investment and Construction Agreement and the transaction contemplated thereunder that are subject to the Independent Shareholders' approval. We wish to draw your attention to the letter from First Shanghai which contains advice to us in relation to the Investment and Construction Agreement and the transaction contemplated thereunder that are subject to the Independent Shareholders' approval, together with the principal factors and reasons taken into consideration in arriving at such advice. Your attention is also drawn to the letter from the Board and the additional information set out in the appendices to this circular.

* *For identification purposes only*

LETTER FROM THE INDEPENDENT BOARD COMMITTEE

Having taken into account the advice of, and the principal factors and reasons considered by First Shanghai in relation thereto as stated in its letter, we consider the terms and conditions of the Investment and Construction Agreement and the transaction contemplated thereunder that are subject to the Independent Shareholders' approval, to be fair and reasonable so far as the Independent Shareholders are concerned and to be in the interests of the Company and the Shareholders as a whole. We therefore recommend you to vote in favour of the Investment and Construction Agreement and the transaction contemplated thereunder that are subject to the Independent Shareholders' approval.

Yours faithfully,
Independent Board Committee

Deng Tianlin
Independent
non-executive director

Fung Ching, Simon
Independent
non-executive director

George F. Meng
Independent
non-executive director

He Linji
Independent
non-executive director

LETTER FROM FIRST SHANGHAI

The following is the full text of the letter of advice from First Shanghai to the Independent Board Committee and the Independent Shareholders dated 7 October 2015 setting out their opinion regarding the proposed provision of funds to the Parent Company for construction of new airport terminal buildings and their ancillary facilities for the Phase II expansion of the existing Meilan Airport under the Company Construction Project pursuant to the Investment and Construction Agreement (the “Expansion Construction”), for the purpose of inclusion in this circular.



19th Floor
Wing On House
71 Des Voeux Road Central
Hong Kong

7 October 2015

*To the Independent Board Committee and
the Independent Shareholders*

HNA Infrastructure Company Limited
Meilan Airport Complex
Haikou City
Hainan Province
The PRC
Postal Code: 571126

Dear Sirs,

VERY SUBSTANTIAL ACQUISITION AND CONNECTED TRANSACTION INVESTMENT AND CONSTRUCTION AGREEMENT

INTRODUCTION

We refer to our engagement as the independent financial adviser to advise the Independent Board Committee and the Independent Shareholders in respect of the proposed provision of funds to the Parent Company for the construction of the new airport terminal buildings and their ancillary facilities for the Phase II expansion of the existing Meilan Airport under the Company Construction Project pursuant to the Investment and Construction Agreement, details of which are set out in a circular dated 7 October 2015 (the “Circular”) to the Shareholders, of which this letter forms part. Terms used in this letter shall have the same meanings as those defined in the Circular unless the context requires otherwise.

LETTER FROM FIRST SHANGHAI

On 21 August 2015, the Company and the Parent Company entered into the Investment and Construction Agreement in respect of the Airport Project.

As each of the assets ratio and consideration ratio (as defined in Rule 14.07 of the Listing Rules) for the transaction contemplated under the Investment and Construction Agreement is more than 100%, such transaction constitutes a very substantial acquisition of the Company under Chapter 14 of the Listing Rules.

As the Parent Company, holding 50.19% shareholding interest of the Company, is the holding company of, and therefore a connected person of the Company under the Listing Rules, the transaction contemplated under the Investment and Construction Agreement also constitutes a connected transaction of the Company under Chapter 14A of the Listing Rules.

Therefore, such transaction is subject to reporting, announcement and independent shareholders' approval requirements under the Listing Rules. Such transaction will be subject to the approval of the Independent Shareholders taken on a poll at the EGM. The Parent Company and its associates will abstain from voting on the resolution to approve the Investment and Construction Agreement and the transaction contemplated thereunder at the EGM.

BASIS OF OUR OPINION

In formulating our opinion, we have relied on the information, facts and representations contained or referred to in the Circular and the information, facts and representations provided by, and the opinions expressed by the Directors, the Company and its management (the "**Management**"). We have assumed that all statements, information, facts, opinions and representations made or referred to in the Circular were true, accurate and complete at the time they were made and continued to be true, accurate and complete as at the date of the Circular.

We consider that we have (i) obtained all information and documents of the Company and the Parent Company relevant to an assessment of the fairness and reasonableness of the terms of the Expansion Construction; (ii) researched the relevant market and other conditions and trends relevant to the pricing of the Expansion Construction; (iii) reviewed the fairness, reasonableness and completeness of any assumptions relevant to the Expansion Construction; and (iv) reviewed the opinion and valuation relevant to the Expansion Construction provided by the expert, being Vigers Appraisal and Consulting Limited and an independent professional property valuer (the "**Valuer**"), including reviewing the terms of engagement (having particular regard to the scope of work, whether the scope of work is appropriate to the opinion required to be given and any limitations on the scope of work which might adversely impact on the degree of assurance given by the expert's report (the "**Valuation Report**"), opinion or statement). Based on the foregoing, we confirm that we have taken all reasonable steps, which are applicable to the Expansion Construction, as referred to in Rule 13.80 of the Listing Rules (including the notes thereto).

LETTER FROM FIRST SHANGHAI

We consider that we have reviewed sufficient information to reach an informed view and to justify reliance on the accuracy of the information contained in the Circular and to provide a reasonable basis for our recommendation. We have no reason to doubt the truth, accuracy and completeness of the statements, information, facts, opinions and representations provided to us by the Directors, the Company and the Management. The Directors have confirmed to us that no material facts have been omitted from the information supplied and opinions expressed and we have no reason to doubt that any relevant material facts have been withheld or omitted from the information provided and referred to in the Circular, or the reasonableness of the opinions and representations provided to us by the Company. All the Directors jointly and severally accept full responsibility for the accuracy of the information contained in the Circular and confirm, having made all reasonable enquiries, that, to the best of their knowledge, opinions expressed in the Circular have been arrived at after due and careful consideration and that there are no other facts not contained in the Circular, while the omission of which would make any statement in the Circular misleading. We have relied on such information and opinions and have not however, conducted any independent investigation into the business, financial conditions and affairs or the future prospects of the Group and the Parent Company.

THE INDEPENDENT BOARD COMMITTEE

The Independent Board Committee, comprising the four independent non-executive Directors, namely Mr. Deng Tianlin, Mr. Fung Ching Simon, Mr. George F. Meng and Mr. He Linji, has been established to consider the Expansion Construction and the transactions contemplated under the Investment and Construction Agreement, and to advise the Independent Shareholders on the fairness and reasonableness in relation to the terms of the Expansion Construction and the transactions contemplated thereunder.

As the independent financial adviser to the Independent Board Committee and the Independent Shareholders, our role is to give an independent opinion to the Independent Board Committee and the Independent Shareholders as to (i) whether the transactions under the Expansion Construction are conducted in the ordinary and usual course of business of the Group; (ii) whether the terms of the Investment and Construction Agreement are on normal commercial terms, in the interests of the Company and the Shareholders as a whole, and are fair and reasonable so far as the Independent Shareholders are concerned; and (iii) how the Independent Shareholders should vote in relation to the ordinary resolution to be proposed at the EGM for approving the Investment and Construction Agreement and the transactions contemplated thereunder at the EGM.

The Independent Shareholders should note that, within the past two years from the Latest Practicable Date, we were engaged as the independent financial adviser by the Company for one occasion (i.e. mainly in relation to the provision of independent financial advice to the then Independent Board Committee and Independent Shareholders for the connected transaction involving subscription of new domestic shares under specific mandate of the Company) as detailed in the circular of the Company dated 15 August 2014. Given (i) our independent role in that previous engagement; (ii) none of the members of our parent group is a direct party to the Investment and Construction

LETTER FROM FIRST SHANGHAI

Agreement; and (iii) our fees for this present engagement in addition to that previous engagement represented an insignificant percentage of revenue of our parent group, we consider that previous engagement would not affect our independence to form our opinion in respect of this very substantial acquisition and connected transaction to be contemplated under the Investment and Construction Agreement.

PRINCIPAL FACTORS AND REASONS CONSIDERED

In arriving at our recommendation in relation to the Expansion Construction pursuant to the Investment and Construction Agreement, we have considered the following principal factors and reasons:

1. Background of the Company

The Company is principally engaged in the management and operation of aeronautical and non-aeronautical businesses at Meilan Airport in Hainan Province, the PRC.

The Company has been operating the Meilan Airport, the main gateway to, and located at Hainan Province, the PRC since May 1999, and has been experiencing a smooth operation and satisfactory growth in terms of aircraft movement, passenger throughput and cargo throughput since then.

2. Background of the Parent Company

The Parent Company is a domestic company with limited liability established in the PRC and the controlling shareholder of the Company. The Parent Company is principally engaged in ancillary airport service business in the PRC.

3. Background of the Phase II expansion project of Meilan Airport

On 2 June 2015, the NDRC approved the construction of the Phase II expansion project of Meilan Airport (NDRC Infrastructure [2015] No. 1215 (發改基礎[2015]1215號)), which means the feasibility study report (the “**Feasibility Study Report**”) issued by a professional institution engaged by the Parent Company in relation to the construction of the Phase II expansion project of Meilan Airport which comprised three parts, i.e. an airport project (the “**Airport Project**”), an air traffic control project and a fuel supply project, was approved. Pursuant to the approval from NDRC, the project representatives of the air traffic control project and the fuel supply project shall be CACC Central and Southern Regional Administration (民航中南地區空管局), an independent third party of the Company and its connected persons, and Hainan Meiya Industrial Co., Ltd. (海南美亞實業有限公司), a company owned as to 50% by the Parent Company, respectively, which shall be responsible for the implementation and management of such projects. The Company confirms that these two projects are independent from the Airport Project and will be carried out separately by the above-mentioned project representatives and the Company will not participate in these projects. Therefore, there will be no contractual relationship among the Company and the above-mentioned two project representatives in such projects.

LETTER FROM FIRST SHANGHAI

According to the Feasibility Study Report and the approval from NDRC, and leveraging the previous experience of the Parent Company in airport construction, the Parent Company will act as the project representative of the Airport Project, with an estimated aggregate investment amount of approximately RMB13.838 billion. Such estimated aggregate investment amount of approximately RMB13.838 billion of the Airport Project was the estimated amount determined with reference to the applicable national and regional construction fee standards, applicable rules for composing of civil aviation airport construction project budget and interest rate of long-term bank loan of approximately 6.55%.

The Airport Project comprises the new airport terminal buildings, parking lot, cargo handling service area, ground handling service area, airport fire-fighting and rescue project, airport emergency respond and rescue project, vehicles and equipment project and its relevant assets (collectively as the “**Company Construction Project**”); and other projects including, without limitation, a runway, two sets of parallel taxiway and contact roads system, parking apron, aviation food preparation area, water supply system, electricity supply system, gas supply system and communication facilities (collectively as the “**Parent Company Construction Projects**”).

Other than the reasons for and benefits of the entering into of the Investment and Construction Agreement as disclosed below, the roles of the Company and the Parent Company in the construction of the Airport Project, the allocation of the Company Construction Project and the Parent Company Construction Project and the respective assets thereunder were mainly determined by taking into the consideration of the following: (i) the financial challenges the Company may face for providing funds of approximately RMB13.838 billion for the construction of the whole Airport Project by itself; (ii) the current operation model of Meilan Airport between the Company and the Parent Company, details of which were set out in the paragraph headed “The Operation Plans of the Phase II Expansion Project of Meilan Airport” below; and (iii) the compliance with the existing non-competition arrangement between the Company and the Parent Company by allocating the relevant assets in consistent with the current operation model of Meilan Airport.

LETTER FROM FIRST SHANGHAI

The breakdown of the estimated aggregate investment amount of the Airport Project is set out below:

Items to be constructed	Estimated investment amount <i>(RMB'000)</i>
 The Company Construction Project	
New airport terminal buildings	3,889,100
Parking lot	443,170
Cargo handling service area	120,800
Ground handling service area	142,220
Airport fire-fighting and rescue project	36,540
Airport emergency respond and rescue project	1,030
Vehicle and equipment project	157,530
Other incidental expenses ^(Note 1)	2,367,840
	2,367,840
 Sub-total	 7,158,230
 The Parent Company Construction Project	
Airfield area project (including a runway, two sets of parallel taxi-way and contact roads system, and parking apron)	1,775,170
Aviation food preparation area	178,070
Water supply system	53,360
Electricity supply system	357,700
Gas supply system	90,030
Communication facilities	30,000
Other ancillary facilities	1,778,410
Other incidental expenses ^(Note 2)	2,416,960
	2,416,960
 Sub-total	 6,679,700
 Total	 13,837,930

Notes:

1. The estimated other incidental expenses include, without limitation to, land acquisition and settlement compensation of approximately RMB1,123 million, infrastructure preparation fee of approximately RMB327 million, loan interest of approximately RMB426 million, project design fee of approximately RMB172 million, etc.
2. The estimated other incidental expenses include, without limitation to, land acquisition and settlement compensation of approximately RMB1,313 million, infrastructure preparation fee of approximately RMB290 million, loan interest of approximately RMB378 million, and project design fee of approximately RMB153 million, etc.

4. Reasons for and benefits of entering into the Investment and Construction Agreement

As mentioned in the “Letter from the Board” of the Circular, the Directors consider that the Investment and Construction Agreement will benefit the Company for the following reasons:

Potential growth of aviation industry and tourism and existing capacity constraints

In the face of new development trend of the domestic economy, the civil aviation industry in China saw a number of favorable policies and maintained rapid growth in the past years. In 2014, China’s civil aviation industry achieved total transport turnover of 74.85 billion tons/km, passenger transportation volume of 390 million as well as cargo and mail traffic volume of 5.933 million tons, representing a year-on-year growth of approximately 11.4%, 10.4% and 5.7%, respectively.

In 2014, despite the pressure and challenges caused by the domestic economic downturn and the serious natural disasters, the tourism of Hainan Province remained rapid growth benefited from certain favorable factors such as the overall stable development of the civil aviation industry and the construction of the Hainan International Tourism Island. Both the total number of tourists and the total tourism revenue outpaced the average rate of the national tourism. The number of domestic and foreign tourists staying overnight for the year amounted to approximately 47.9 million, representing a year-on-year growth of about 10.6%, of which, approximately 40.6 million foreign tourists staying overnight and the tourism revenue amounted to approximately RMB50.7 billion, representing a year-on-year growth of about 10.56% and 13.2% respectively.

Driven by the accelerated transformation and upgrading of the tourism, the local government of Hainan Province will further standardize and integrate the resources of the tourism industry of the whole province, promote the attractive and differentiated development thereof and fully explore the development potential of this industry. Several key large-scaled tourism projects, such as an integrated project of leisure and entertainment named “Mission Hill • Lan Kwai Fong • Haikou”, the Hainan Aerospace Theme Park and the Hainan Sino-Thai Cultural Resort, are under construction and development and are expected to be put into operation in the near future. Furthermore, the local government of Hainan Province will also further optimize transportation infrastructure, including the construction of the West Ring High-Speed Railway, Dinghai Bridge and the Qionghai Boao Airport and the open to traffic of Tunchang – Qiongzong Highway. In addition, with a view to further capitalize on the duty free policy of Hainan Province and to facilitate the construction of Hainan International Tourism Island, after obtaining approvals from or reporting to relevant government authorities, the Ministry of

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Finance has decided, with effect from 20 March 2015, to adjust and fine-tune part of the duty free policy of Hainan Province to further easing the duty free policy of Hainan Province, which will in turn help driving the sustainable growth of the tourism and the consumption of Hainan Province and thereby, directly or indirectly, boosting the passenger traffic of Meilan Airport.

Based on the above, the Directors believe that the tourism in Hainan Province is expected to further grow, which will drive sharp increases of passenger and cargo flow and aircraft movements to and from Meilan Airport. In addition, being located in the capital of Hainan Province, Meilan Airport is situated at a strategic location and enjoys a distinguished geographical advantage and thus has bright prospects. However, Meilan Airport is currently operating above its design capacity with a passenger throughput of over 10 million for the last five consecutive years and an expected passenger throughput of over 15 million in 2015. By investing and constructing the Company Construction Project, the Company can seize development opportunities, further promote the throughput of Meilan Airport to hit a new high and resolve the existing limitation of passenger throughput of Meilan Airport.

Minimizing relevant financial cost and preventing potential adverse effect on revenue

If the Company is to acquire the Company Construction Project after its completion instead of the entering into of the Investment and Construction Agreement, it is estimated that the Company shall assume estimated tax expenses of approximately RMB218.33 million comprising approximately RMB3.58 million of stamp duty and approximately RMB214.75 million of deed tax in total computed in accordance with the estimated aggregate construction cost of the Company Construction Project and the requirements under relevant PRC laws and regulations.

In addition, the considerations payable under future acquisitions after the completion of the Company Construction Project instead of the contemplated investment and construction is expected to be higher because of the estimated increase in value of the assets of the Company Construction Project in the coming three-to-five-year period during which the Company Construction Project will be constructed.

Furthermore, pursuant to the current arrangement under the Investment and Construction Agreement, the Company has the right to occupy, utilize, benefit from and dispose of the assets comprising the Company Construction Project before the registration of the ownership of such assets. The Company will be able to operate and realize revenue in accordance with the current operation model of Meilan Airport sooner and prevent potential adverse effect on revenue caused by the time consumed due to the procedures and facilities required for conducting acquisition of the Company Construction Project.

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Ensuring high efficiency and quality of the Company Construction Project and enhancing the economy of scale in the operation of the Company

By making investment directly into the construction of the Company Construction Project, the Company will be able to accelerate and oversee the process of the construction of the Company Construction Project to ensure its efficient completion and high quality. By appointing the Parent Company as the project representative, the Parent Company can play a positive role in facilitating the relevant governmental approval process; and the Company can leverage the Parent Company's previous experience in airport construction, such as the terminal expansion project of Meilan Airport.

Upon completion of the Phase II expansion project of Meilan Airport, the Company will benefit from the economy of scale in conducting the existing airport facilities operation together with new facilities provided by the Phase II expansion project of Meilan Airport.

The Directors (including the independent non-executive Directors) are satisfied that (i) the terms and conditions of the Investment and Construction Agreement have been negotiated on an arms' length basis and are on normal commercial terms; (ii) the transactions contemplated under the Investment and Construction Agreement will be conducted in the ordinary and usual course of business of the Company; and (iii) the terms of such transaction are fair and reasonable and in the interests of the Company and its Shareholders as a whole.

Based on our independent research from the official websites of 中華人民共和國國家統計局 (The National Bureau of Statistics of China) and 中華人民共和國海南省人民政府 (The People's Government of Hainan Province, the PRC) (the "**Government of Hainan Province**"), according to the statistical information as extracted therefrom, Hainan Province had a population of approximately 9.0 million as at 31 December 2014 and had experienced a substantial economic growth in the past ten years. The real gross domestic products (the "**GDP**") growth rate of Hainan Province exceeded the average national growth rate for the past few years. Since Hainan became a province of the PRC in 1988, the economic structure has gradually evolved toward a healthy balance between primary, secondary and tertiary sectors comparing to its substance in the agricultural industry before. In 2014, the GDP rose by 8.5% on a year-on-year basis to approximately RMB350.1 billion, which was higher than the national average growth rate of 7.0%. The GDP growth was mainly contributed by investment and consumption. Hainan Province's fixed-asset investment surged 13.2% on a year-on-year basis to approximately RMB304.0 billion, while its total retail sales increased by approximately 12.2% to approximately RMB109.1 billion.

According to the statistical information published by the Government of Hainan Province, tourism in Hainan Province has recorded rapid growth over the past five years, representing an average increase in terms of revenue and number of tourists of almost 10% per annum. In 2014, around 47.9 million tourists visited Hainan Province bringing in gross revenue of approximately RMB50.7 billion,

which represented respective increases of approximately 10.6% in tourist number and 13.2% in gross revenue over those of the 2013. According to a statement of the State Council of the PRC, the PRC's central government aims to build the southern island of Hainan into a top international tourism destination by 2020; and plans to develop the only tropical island province (i.e. the Hainan Province) to be a platform for international economic cooperation and cultural exchanges. In view of the above, the Government of Hainan Province had anticipated that there would be about 47.6 million and 76.8 million tourists visiting Hainan Province and bringing in gross revenue of approximately RMB54.0 billion and RMB124.0 billion in 2015 and 2020 respectively, representing respective considerable increases from that of approximately 47.9 million tourists visiting Hainan Province with gross revenue of approximately RMB50.7 billion in 2014. Based on the above published statistical information on actual performance, the number of tourists visiting Hainan Province in 2014 of approximately 47.9 million had already exceeded the government's previous estimation of approximately 47.6 million for the year 2015.

Based on the above scenario, we concur with the Directors' view that the Expansion Construction will (i) seize development opportunities, further promote the throughput of the existing Meilan Airport to hit a new high and resolve the existing capacity constraints of the existing Meilan Airport; (ii) benefit the region's aviation industry by bringing in new opportunities; and (iii) enable the Group to better implement its strategy and planning in respect of the operation and development of the existing Meilan Airport in the future, and therefore potentially benefit and broaden the revenue source and earning base of the Group going forward. As such, Board considers the Expansion Construction is in the interests of the Company and the Shareholders as a whole.

In view of the above, we are of the view that the Expansion Construction is in line with the infrastructure development plan of the Government of Hainan Province as well as the business development strategy of the Group itself, conducted in the ordinary and usual course of business of the Group by way of capital formation for enhancing its long-term operating capability, and in the interests of the Company and the Shareholders as a whole.

5. Principal terms of the Investment and Construction Agreement

On 21 August 2015, the Company and the Parent Company entered into the Investment and Construction Agreement in respect of the Airport Project, details of which are set out below.

Subject matter

Pursuant to the Investment and Construction Agreement, the Company has agreed to provide funds, amounting to approximately RMB7.158 billion, to construct the Company Construction Project. The Parent Company shall act as the project representative of the Airport Project, responsible for organizing and supervising the implementation of construction plan of the Airport Project and the fund raising for the Parent Company Construction Project until its completion and acceptance.

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The Parent Company has agreed to register the ownership of the relevant assets comprising the Company Construction Project, including but not limited to, the land use rights and property ownership of the buildings, under the name of the Company upon the completion and acceptance of the Airport Project (the “**Project Completion**”), unless otherwise agreed by both the Company and the Parent Company. The ownership of the assets of the Parent Company Construction Project shall be owned by the Parent Company.

The Parent Company has also irrevocably agreed, undertaken and confirmed that, before the registration of the ownership of the assets comprising the Company Construction Project under the name of the Company, the Company has the right to occupy, utilize, benefit from and dispose of the assets comprising the Company Construction Project without making any payment to the Parent Company to the extent permitted by the applicable PRC laws.

Details of the Company Construction Project

The estimated site area of new airport terminal buildings, parking lot and cargo handling service area are approximately 296,000 square meters, 93,900 square meters and 28,400 square meters, respectively. The site area of lands of the new airport terminal areas, working areas and cargo handling areas are approximately 113.4 hectares, 125.5 hectares and 14.0 hectares, respectively. The above figures of the area of buildings and lands of the Company Construction Project are subject to adjustment based on the final design of the Airport Project.

According to the Feasibility Study Report, it is estimated that the area of the land to be expropriated and used for the purposes of the construction of Phase II expansion project of Meilan Airport is approximately 549 hectares, of which the land of approximately 252.9 hectares will be used for the Company Construction Project under the Investment and Construction Agreement. The estimated value of the above-mentioned land of approximately 252.9 hectares to be used for the Company Construction Project is approximately RMB1,507.3 million based on the Valuation Report issued by the Valuer engaged by the Company as set out in the Appendix III to the Circular, which is approximately 34.2% higher than the preliminarily estimated costs for land acquisition and settlement compensation of approximately RMB1,123 million directly attributable to this land site. Independent Shareholders should note that the Valuation (as defined below) as concluded at approximately RMB1,507.3 million as at 30 June 2015 is for reference only and may not be completely comparable with the above-mentioned estimated costs of the land site at approximately RMB1,123 million, because the Company has to incur additional costs for ancillary utility services in relation to that piece of land site during the construction period.

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We have reviewed the Valuation Report and enquired into the Valuer on the methodology adopted and the basis and assumptions used in arriving at the valuation of market value as at 30 June 2015 as set out in the Appendix III to the Circular (the “**Valuation**”). In the course of our enquiry, we understand that the Valuer carried out a site inspection to the land site at Haikou City, Hainan Province, the PRC in August 2015 to research into the necessary information to determine the market value of that land site under the Company Construction Project. The Valuer has advised that it has adopted the direct comparison and standard land price approaches for the Valuation by making reference to the standard land price in Haikou City, Hainan Province, the PRC; and the comparable land transaction evidences as available to it from the official public website in the locality. As confirmed by the Valuer, the direct comparison and standard land price approaches are commonly adopted for valuation of properties in Hong Kong and the PRC and is also consistent with the normal market practice. Further details of the bases and assumptions of the Valuation are included in the Valuation Report as contained in the Appendix III to the Circular. During the course of our review on the Valuation Report and enquiries with the Valuer, we have not identified any major factors which cause us to doubt the fairness and reasonableness of the principal bases and assumptions adopted for the Valuation.

Consideration and payment

Pursuant to the Investment and Construction Agreement, the Company will provide funds covering all the costs and expenses in the construction of the Company Construction Project of an estimated total amount of approximately RMB7.158 billion (the “**Estimated Construction Costs**”), comprising the following:

- (i) construction costs of approximately RMB4.790 billion;
- (ii) other incidental expenditures of approximately RMB1.609 billion;
- (iii) contingency reserve of approximately RMB0.327 billion;
- (iv) loan interest of approximately RMB0.426 billion; and
- (v) working capital of approximately RMB5.3 million.

The above Estimated Construction Costs to be borne by the Company are estimated by the Management according to the Feasibility Study Report approved by the NDRC. The Feasibility Study Report was prepared by 中國民用航空總局轄下中國民航機場建設集團公司 (China Airport Construction Group Corporation sub-ordinated to the Civil Aviation Administration of China) (the “**CACC**”), which was engaged by the Parent Company in relation to the construction of the Phase II expansion project of Meilan Airport. CACC, founded in 1954, is a state-owned enterprise and a subsidiary of China Capital Airport Group Company (首都機場建設集團公司). CACC was able to provide all range of services needed for civil airport design and construction and obtained Grade-A certificates in project design (甲級工程設計), project consultation (甲級工程諮詢) and geo-technical engineering (甲級岩

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土工程)。The CACC participated in the constructions of a lot of PRC airports and also participated in the constructions of a few international airports, including the airport in Laos People's Democratic Republic. The estimated total amount of the Company Construction Project was determined with reference to the Estimated Construction Costs contained in the Feasibility Study Report. Such construction costs were determined with reference to construction cost and fees of Haikou City, the Hainan Province, the PRC and the standard fees in civil aviation industry of the PRC. For the cost relating to construction and installation projects (建築安裝工程), it was determined with reference to the relevant costs of construction and installation in Haikou City. For airport and runway project (機場跑道工程), it was determined with reference to the provision for budget of civil airports in the PRC under relevant PRC laws and for other construction items, it was determined with reference to the Method for Preparation of the Budget for the Construction of Civil Airport (民航機場建設工程概算編製辦法). The construction costs contained in the Feasibility Study Report were estimated based on the assumption that the long-term bank interest rate is 6.55% and no adjustment of such construction costs will be made for change of prices during the construction period. Further details of sources of reference for computation of the Estimated Construction Costs are set out in the "Letter from the Board" of the Circular.

The Directors confirm that the estimated aggregate amount of approximately RMB7.158 billion is the estimated maximum investment amount in relation to the construction of the Company Construction Project based on the Feasibility Study Report and other currently available information. Subject to the project completion and settlement report of the Airport Project to be approved (if required) by relevant authorities and the assets invested by and registered under the name of the Company upon completion and acceptance of the Airport Project, such estimated maximum investment amount shall be further adjusted. The Directors further confirm that the Company shall seek approval from the Shareholders and make additional disclosure pursuant to the applicable compliance requirement under the Listing Rules if and when the aggregate investment amount for the construction of the Company Construction Project is expected to exceed RMB7.158 billion due to any unforeseeable reasons that may be beyond the control of the Company.

Unless otherwise mutually agreed by the Company and the Parent Company during the process of construction of the Airport Project, the costs and expenses in relation to any project agreements to be entered into between the Company and the Parent Company, and any third parties shall be paid by the Company directly to such third parties, and in relation to any equipment supply agreements to be entered into between the Company and any suppliers directly to such suppliers. The selection of third party contractors and suppliers will be mainly through public tendering procedures. The Company will participate in such selection procedures and will take a leading role to determine which third party contractors and suppliers to use in relation to the Company Construction Project. With respect to other costs and expenses incurred in the process of the construction of the Company

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Construction Project, since the Company is not the project representative, it may not be a party of such contracts or the payer of such amounts, thus the above-mentioned amount (such as government-related fees) needs to be paid through the Parent Company. Such amount shall be paid to the Parent Company by the Company upon the Parent Company's request and provision of relevant supporting documents on a back-to-back basis.

Having considered the above arrangement, we noted that the Company shall bear its own costs to be incurred for, and only that part attributable to, the construction work of the new airport terminal buildings and their ancillary facilities under the Company Construction Project; while the Parent Company acts as the representative for the project to assist the Group in undertaking the construction work under the Company Construction Project until the Project Completion, and hence, the spirit of the Investment and Construction Agreement is for the benefit of the Group without taking or levying the Company any advantage, remuneration and/or compensation in return for the Parent Company's assistance to be provided during the construction period. Besides, the Company has the right to appoint an independent third party to audit such project completion and settlement report upon Project Completion, if it considers necessary. On such basis, we are of the view that the basis of determining the Estimated Construction Costs and the relevant payment arrangement under the Company Construction Project, which may be subject to final audit, is fair and reasonable so far as the Independent Shareholders are concerned, and is in the interests of the Company and the Shareholders as a whole.

Funding sources for the Company Construction Project

The Company intends to fund the Company Construction Project by the followings:

- (i) Asset-backed securities

The Company has completed the asset-backed securitization plan amounting to RMB1.2 billion on 2 July 2015, of which approximately RMB0.95 billion will be utilized in the construction of the Company Construction Project;

- (ii) The loan from the China Development Bank, Hainan Branch regarding the Company Construction Project

The China Development Bank, Hainan Branch issued a letter of intention in relation to the long-term project loan of the Airport Project amounting to approximately RMB8 billion, pursuant to which a 20 to 30 years long-term project loan is to be provided to the Airport Project. It is currently expected that the Company may obtain a long-term project loan credit amounting to approximately RMB4.16 billion, which will be utilized in the construction of the Company Construction Project;

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(iii) Issuance of bonds

The Company plans to issue public offering bonds or make private placement amounting to approximately RMB1 to 2 billion with a term of two to three years, proceeds from which will be utilized in the construction of the Company Construction Project; and

(iv) Working capital

The Company will use part of its working capital generated from its operating activities to support the construction of the Company Construction Project.

The operation plans of the Phase II expansion project of Meilan Airport

Pursuant to the current operation model of Meilan Airport, Meilan Airport is operated by the Company and the Parent Company jointly. The Company is engaged in both aeronautical and non-aeronautical businesses. Its aeronautical business consists of the provision of airfield services, terminal facilities, ground handling services, and passenger and cargo handling services. Its non-aeronautical business includes leasing of commercial and retail spaces at the Meilan Airport, airport-related business franchising, advertising, car parking, tourism services and sales of duty-free and consumable goods. The Parent Company is engaged in the maintenance of runways, provision of airfield area related services and logistical support services, which is in line with the disclosure made by the Company in its prospectus upon its listing.

As disclosed in the Company's prospectus dated 6 November 2002, in respect of the aeronautical business, the Company shares the aircraft movement fees, the passenger charges and the basic ground handling services fees with the Parent Company on the basis of 75% to the Company and 25% to the Parent Company. The Parent Company also charges the Company for provision of the security guard service, cleaning and environment maintenance, sewage and refuse processing, power and energy supply and equipment maintenance, passengers and luggage security inspection, and other services required by the Company. Based on the current operation model of Meilan Airport, it is expected that the revenue arisen from the utilization of the assets of the Company Construction Project, including, without limitation to, the aircraft movement fees and the passenger charges (to be shared by the Parent Company on a certain percentage to be agreed between the Company and Parent Company with reference to the above 75% (Company) and 25% (Parent Company) basis as the Parent Company will operate assets such as the runways which contribute part of these revenues), ground handling services fees, cargo handling services fees, leasing income of commercial and retail spaces, advertising fees and car parking fees, will be attributable to the Company.

Pursuant to the Investment and Construction Agreement, the Company and the Parent Company have agreed to operate assets of the Phase II expansion project of Meilan Airport by reference to the above mentioned operation model of Meilan

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Airport and in accordance with any other agreement (in relation to the operation of Meilan Airport and distribution of revenue between the Company and the Parent Company) to be negotiated and entered into between the Company and the Parent Company before the Phase II expansion project of Meilan Airport is put into operation. Subject to negotiation between the Company and the Parent Company in the future, if any, and further approval by the relevant regulating authority, there shall be no material difference between the sharing proportion of fees and charges under the current operation model of Meilan Airport and the operation model to be adopted in Phase II expansion project of Meilan Airport.

We have reviewed the approval issued by the 中國民用航空總局財務司 (the Finance Office of the Civil Aviation Administration of China) dated 27 September 2002 for the sharing proportion of fees and charges to be collected from the airport operation from time to time between the Company as to 75% and the Parent Company as to 25%, which is consistent with the current practice and planned arrangement pursuant to the Investment and Construction Agreement as outlined above, we therefore are of the view that such fee and charge sharing arrangement between the Company and the Parent Company is justifiable, fair and reasonable.

Expected completion date of the construction of the Airport Project

The construction of the Airport Project is expected to be completed and approved by relevant authorities by the end of 2020.

Rationale behind for the Parent Company acting as the representative of the project

The Estimated Construction Costs attributable to the Company Construction Project of approximately RMB7.158 billion were prudently estimated by the Management and compromised with the Parent Company based on their past experience, expertise and knowledge for construction and operation of the existing Meilan Airport. In addition, such Estimated Construction Costs had been verified and reviewed by an independent professional institution in the civil aviation profession. Based on our understanding from the Management and the prospectus of the Company dated 6 November 2002, the existing Meilan Airport was previously constructed, owned and managed by the Parent Company prior the re-organisation prepared for the listing of the shares of the Company in November 2002. We further understand that (i) currently, certain number of the Directors and the Management were recommended by the Parent Company who had already possessed the requisite experience and expertise in areas similar for managing the Company Construction Project before joining the Group, which were mainly gained from their working experiences in the Parent Company itself; and (ii) the Parent Company is ultimately controlled by the State with well established relationship with the Government of Hainan Province. It has been and would be administratively convenient and beneficial for the Parent Company to act as the representative and take the leading role for the Company Construction Project instead of using any independent business partner(s), for the purposes of obtaining regulatory approval and bargaining for government subsidies and/or tax concessions, if any. On such basis, we consider that it would be beneficial, appropriate and justifiable for

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utilising the Parent Company to undertake and manage the construction works for new airport terminal buildings and their ancillary facilities under the Company Construction Project and then be transferred to the Group upon Project Completion, on the grounds that the requisite expertise and knowledge thereunder is quite unique when compared to other residential and/or commercial construction works.

We have reviewed the Feasibility Study Report specifically prepared for the Airport Project, comprising the Company Construction Project, by the CACC, and noted that the above Estimated Construction Costs of approximately RMB7.158 billion are within the budgeted costs of investment of approximately RMB13.838 billion under the Airport Project already approved by the NDRC in June 2015.

Based on our independent research from the website of the CACC, we noted that CACC was founded in 1954 and is the only enterprise offering a full range of services in the civil airport construction, which is a science and technology concentrated State-owned enterprise with Grade-A certificates in engineering design, consultation, supervision and geo-technical engineering. CACC has been certified GB/T19001-ISO9001:2000 and updated the quality assurance system in 2003. The business of CACC includes the turn-key projects, project management, engineering investigation, consultation, design, supervision, construction and research, etc.. Since its establishment in 1954, CACC has successfully completed nearly 150 projects nationwide in building new airports and extending airports, offering services from site-selection, pre-feasibility study, feasibility study, master plan to design. CACC has also carried out over 40 projects in airport engineering supervision, and more than 30 projects in engineering contracting and project management. At present, CACC has assisted 80% of the regional airports and feeder airports in China to realize their development goals. The designs of CACC have been granted awards numerously, such as Zhan Tianyou Civil Engineering Award, Golden Medals of National Excellent Engineering Design Award, CACC Airport Engineering Excellence Design, and so on. In the recent years, CACC has undertaken a series of overseas airport projects, for instance, in Vietnam, Cambodia, Mauritius, Albania, Comoros, Tonga, Angola, Laos People's Democratic Republic and Republic of Congo. Based on the above understanding, we consider that CACC has possessed the requisite qualifications, experience and expertise in the civil aviation industry, and is well-qualified to prepare the Feasibility Study Report so as to determine the Estimated Construction Costs for the Airport Project, comprising the Company Construction Project.

We have also reviewed the list of construction works that will be required to be undertaken in the new airport area for the Phase II expansion of the existing Meilan Airport under the Airport Project. The major items of the construction works are directly comparable with those in the Feasibility Study Report, which was prepared by the CACC, being an expert in the civil aviation industry and already approved by the NDRC as mentioned above; whilst such Estimated Construction Costs for the Company Construction Project as a whole are the basic, yet appropriate and effective, utilisation requirements for a typical civil airport based on the experience of the Management and effective cost control consideration adopted by the Group, which may be further upgraded in the future when it

considers appropriate and necessary at that time. We have further reviewed the major bases, assumptions and methodologies for preparation of the Feasibility Study Report considered and adopted by the CACC, which are basically consistent with the 民航機場建設工程概算編製辦法 (The Method for Preparation of the Budget for the Construction of Civil Airport) issued by the 中國民用航空局機場司 (Airport Office of the Civil Aviation Administration of China). On such basis, we consider that the basis for determination of the Estimated Construction Costs for the Company Construction Project is justifiable, fair and reasonable by making reference to, and is consistent with, the regulations as stipulated thereunder.

Based on our understanding after consideration of the above factors, we consider that the primary aim of the Investment and Construction Agreement, in substance, is to assist the Group to implement its business strategy and expansion plan for its long-term development by utilising the Parent Company's (i) industry experience, technical knowledge and expertise in construction of a civil airport together with its ancillary facilities; and (ii) particular niche regional/industry status and well established relationship with the relevant local government authorities in the Hainan Province, the PRC, so as to (a) facilitate the construction work under the Company Construction Project to be smoothly, efficiently and effectively undertaken; and meanwhile, (b) attain cost and tax-saving effects with a considerable amount up to RMB218.33 million. On such basis, we are of the view that the entering into of the Investment and Construction Agreement is for the benefit of the Group, in the interests of the Company and the Shareholders as a whole, and is fair and reasonable insofar as the Independent Shareholders are concerned.

6. Possible financial effects on the Expansion Construction to the Group

Earnings

Upon the Project Completion, there is no immediate material impact on earnings of the Group, while the Directors expect that the Expansion Construction will enhance the operating capability of the existing Meilan Airport and business development of the Group, and then further contribute to its earnings base in the long run, but the quantification of such impact will depend on the future operating performance of the Group after commencement of the full scale of operation attributable to the new airport terminal buildings and their ancillary facilities under the Company Construction Project.

Working capital

Based on the interim report of the Company for the six months ended 30 June 2015 (the "Interim Report"), the Group's working capital (i.e. total current assets of approximately RMB1,843.8 million, less total current liabilities of approximately RMB784.4 million) and cash at banks and on hand as at 30 June 2015 amounted to approximately RMB1,059.4 million and RMB1,632.3 million respectively, representing a current ratio of approximately 2.35 times.

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The total Estimated Construction Costs under the Company Construction Project will be partially financed by the internal resources of the Group while the remaining substantial part will be served by long-term debt-financing, including asset-back securities, long-term project bank loan and issuance of bonds, when the Directors consider appropriate and necessary. Further, the captioned cost will be settled by progress within the coming few years by the end of 2020. As such, future payments for the Estimated Construction Costs spreading over for almost five years would not exert considerable immediate pressure on the working capital of the Group.

Based on the unaudited pro forma financial information of the Group as set out in Appendix II to the Circular (the “**Pro Forma Financial Information**”), the Group’s total current assets would slightly increase to approximately RMB1,846.0 million while the total current liabilities would remain unchanged at approximately RMB784.4 million, immediately upon the Project Completion, resulting a basically unchanged current ratio of approximately 2.35 times, so which we consider still at a healthy level.

Based on our review of the Company’s annual reports for the past two financial years up to 31 December 2014, we have noted that the Group had net cash inflows generated from its operating activities of approximately RMB447.7 million, RMB505.0 million and RMB419.9 million over the past three financial years respectively, which had demonstrated that the Group has strong capability to generate sufficient operating cash inflow to finance its operations. On such basis, we concur with the Directors’ confirmation that the Group would have sufficient cash resources to satisfy the financing needs for the Expansion Construction. As such, there would not be material adverse effect on the working capital position of the Group after Project Completion and in the coming few years. Further, upon the new airport terminal buildings and their ancillary facilities under the Expansion Construction commencing full-scale of operation, it would generate additional income stream and positive operating cash inflows, and hence, the Directors are optimistic about the working capital position of the Group in both short-term and longer-term future.

Net asset value

According to the Interim Report, the unaudited net asset value of the Group was approximately RMB3,065.1 million as at 30 June 2015. It is currently expected that there will not be any significant impact of the net assets of the Group following the Project Completion, as the increase in the value of the fixed and intangible assets under the Company Construction Project will be offset by the (i) decrease in cash at banks and on hand; and (ii) increase in the long-term liabilities, of the Group.

There will also be no material impact on the income statement and reserves of the Group. Based on the Pro Forma Financial Information, it could be inferred that the Group’s consolidated net asset value would not adversely change upon the Project Completion.

Gearing position

As at 30 June 2015, the Group had interest-bearing borrowings and net asset value of approximately RMB2,281.5 million and RMB3,065.1 million respectively, and hence a relatively higher gearing ratio (which is calculated as total interest-bearing borrowings and corporate bonds divided by the net asset value of the Group) of approximately 74.4%. As the total Estimated Construction Costs under the Company Construction Project will be partially funded by the internal resources of the Group while the remaining balance will substantially be served by long-term debt-financing, including asset-back securities, long-term project bank loan and issuance of bonds, when the Directors consider appropriate and necessary, it is currently anticipated that the gearing position of the Group would significantly increase to a much higher level at approximately 306.4% based on the Pro Forma Financial Information, as the case maybe, but which we consider still at a tolerable level on the basis that (i) the capital formation expenditure associated with the Company Construction Project is one-off in nature for the Group's long-term business development; while (ii) such higher gearing position would not be detrimental to the Group's short-term liquidity position and could gradually be improved in the coming years because the Group has strong capability to generate recurrent operating cash inflow from its ordinary and usual course of business operations. Subsequent to the Project Completion, upon the new airport terminal buildings and their ancillary facilities under the Expansion Construction commencing full-scale of operation, it would generate additional income stream and positive operating cash inflows, and hence, is anticipated that such higher gearing position could further be improved at that time and in the longer-term future.

In light of the foregoing financial effects of the Expansion Construction on the earnings, working capital, net asset value and gearing position of the Group, we are of the view that the Expansion Construction would have no significant adverse impact on the Group's financial position, save and except for the reduction in cash resources and increase in long-term borrowings, which are inevitable as the Group intends to finance the Estimated Construction Costs substantially by external long-term debt financing. Therefore, we are of the view that while the Group's cash resources would be reduced and its gearing position would conversely increase considerably, the Expansion Construction is an effective utilisation of its cash resources which is aimed at positioning the Group for a better growth in the future which, in the long run, is expected to benefit the Company and the Shareholders as a whole.

LETTER FROM FIRST SHANGHAI

RECOMMENDATION

Having taken into account the above principal factors, in particular, (i) the long-term benefits of the Expansion Construction to the Group; (ii) the basis for determination of the Estimated Construction Costs; and (iii) the financial effects on the Expansion Construction to the Group, and that the terms of the Investment and Construction Agreement are on normal commercial terms, fair and reasonable so far as the Independent Shareholders are concerned, we are of the view that the Expansion Construction is conducted in the ordinary and usual course of business of the Group by way of capital formation for enhancing its long-term operating capability, and in the interests of the Company and the Shareholders as a whole. Accordingly, we recommend the Independent Board Committee to advise the Independent Shareholders to vote in favour of the ordinary resolution to approve the Expansion Construction and the transactions contemplated under, or in connection with, the Investment and Construction Agreement at the EGM.

Yours faithfully,
For and on behalf of
First Shanghai Capital Limited
Fanny Lee **Nicholas Cheng**
Managing Director *Director*

Note: Ms. Fanny Lee and Mr. Nicholas Cheng have been the Responsible Officers of Type 6 (advising on corporate finance) regulated activity under the SFO and have many years of experience in corporate finance industry. Both of them have been participating in the provision of independent financial advisory services for various connected transactions involving companies listed in Hong Kong.

1. FINANCIAL INFORMATION OF THE GROUP

Financial information of the Group for each of the three years ended 31 December 2012, 2013 and 2014 is disclosed in the following documents which have been published on the websites of the Stock Exchange (<http://www.hkexnews.hk>) and the Company (<http://www.mlairport.com>) respectively:

- annual report of the Company for the year ended 31 December 2012 published on 10 April 2013 (pages 65 to 132);
- annual report of the Company for the year ended 31 December 2013 published on 4 April 2014 (pages 94 to 212); and
- annual report of the Company for the year ended 31 December 2014 published on 24 April 2015 (pages 107 to 228).

2. INDEBTEDNESS

As at the close of business on 31 August 2015, being the latest practicable date for the purpose of this statement of indebtedness prior to printing of this circular, the Group had total indebtedness as follows:

	<i>RMB'000</i>
Long-term bank borrowings – secured ((a) and (b))	1,469,829
Other borrowings – guaranteed and secured (c)	<u>1,183,064</u>
	2,652,893
Long-term corporate bonds – unguaranteed and unsecured (d)	794,500
Long-term payable	
Obligations under finance leases without guarantee (e)	<u>76,187</u>
Total indebtedness	<u><u>3,523,580</u></u>

- (a) As at 31 August 2015, bank borrowings of approximately RMB1,412,459,000 were secured by the 51% interests in Hainan Meilan International Airport Cargo Transportation Co., Ltd. (海南美蘭國際機場貨運有限責任公司) held by the Company and land use rights with a carrying amount of approximately RMB8,552,000.
- (b) As at 31 August 2015, bank borrowings of approximately RMB57,370,000 were secured by the 24.5% interests in HNA Airport Holdings (Group) Co., Ltd. (海航機場控股(集團)有限公司) held by the Company.
- (c) As at 31 August 2015, other borrowings were secured by the rights of the receivables associated with the Company's aviation services for the period from 1 May 2015 to 30 April 2020, mainly including aircraft takeoff and landing charges, ground handling services charges, etc. The borrowings bear interest at the rate of 9% per annum. The interest and principal should be repaid by instalments in the next five years. The borrowings were guaranteed by the Parent Company.
- (d) The Company issued corporate bonds of RMB800,000,000 on Shanghai Stock Exchange on 31 March 2012 with an interest rate of 7.8%, of which the maturity is seven years.
- (e) As at 31 August 2015, the net book amount of the Group's fixed assets under finance leases is approximately RMB80,628,000.

At the close of business on 31 August 2015, the Group had no contingent liabilities.

Save as aforesaid, and apart from intra-group liabilities and normal trade payables in the normal course of business, as at the close of business on 31 August 2015, the Group did not have any debt securities, issued and outstanding or agreed to be issued, bank overdrafts, loans or other similar indebtedness, liabilities under acceptance (other than normal trade bills) or acceptance credits, debentures, mortgages, charges, hire purchase commitments, guarantees or other material contingent liabilities.

The Directors have confirmed that there have been no material changes in the indebtedness and contingent liabilities of the Group since 31 August 2015.

3. WORKING CAPITAL

The Directors are of the opinion that, after taking into account the internal resources available to the Group including the internally generated funds and the available banking and other financing facilities, the expected completion of the Investment and Construction Agreement and the funding requirements during the early stage of the construction period of the Company Construction Project, and in the absence of unforeseeable circumstances, the Group will have sufficient working capital for its present requirements for at least the next 12 months from the date of this circular.

4. FINANCIAL AND TRADING PROSPECTS OF THE GROUP

For the year ended 31 December 2014, the Group recorded an audited revenue of RMB882,013,345, and a net profit attributable to Shareholders of RMB333,868,533. Earnings per share was RMB0.71. For the six months ended 30 June 2015, the Group recorded revenue of RMB571,693,772 and a net profit attributable to Shareholders of RMB232,036,002. Earnings per share was RMB0.49. In order to further expand the Group's business, the Company makes use of the opportunity from the transaction contemplated under the Investment and Construction Agreement to expand its business, as well as to accommodate the expected increase in number of tourists, aircraft movement, passenger and cargo throughput at Meilan Airport of the Company, which will enable the Company to enhance its future development.

Upon completion of the Airport Project, Meilan Airport will have the capacity to satisfy the operational needs for passenger throughput of approximately 30,000,000 per year and the cargo and mail throughput of approximately 300,000 tons per year. The construction of the Airport Project will also help to meet the needs for the Company's future passenger growth and lay a foundation of the Company's long-term development, increase of revenue and level of profitability. The Board expects that growth of business after the completion of the Airport Project will provide more operating income for the Company.

In the first half of 2015, statistics from the IATA (International Air Transport Association) showed that benefiting from the continuous low price of crude oil internationally and recovery of the global economy, the global air transportation industry is expected to gain further improved net profit of US\$25 billion in 2015, representing a year-on-year increase of approximately 25%. However, the serious incidents happened in TransAsia Airways from Taiwan and the Germanwings have, to a certain extent, struck a blow to the annual profit of the aviation industry. With the international crude oil price lingering in low level, the scale of economy of the air transportation industry will experience persistent increase. The profitability of the aviation industry of China is expected to rise significantly in 2015. The Company considers that there will be stable operation of both international and domestic routes of Meilan Airport and healthy growth in major indexes such as annual passenger throughput. The Company will focus on procedure management and risk control, and in addition to ensuring safety and service quality, the Company will also conduct cost control and generate new income sources so as to maintain annual profit level and strive for fruitful return to Shareholders.

A. UNAUDITED PRO FORMA FINANCIAL INFORMATION

The following is an illustrative unaudited pro forma consolidated balance sheet, an illustrative unaudited pro forma consolidated income statement and an illustrative unaudited pro forma consolidated cash flow statement of the Group (the “**Unaudited Pro Forma Financial Information**”), which have been prepared in accordance with paragraph 4.29 of the Listing Rules and on the basis of the notes set out below, for the purpose of illustrating the financial effects of the Investment and Construction Agreement as if such financial effects had taken place on 30 June 2015 for the unaudited pro forma consolidated balance sheet and on 1 January 2015 for the unaudited pro forma consolidated income statement and the unaudited consolidated cash flow statement of the Group.

The Unaudited Pro Forma Financial Information has been prepared for illustrative purposes only and, because of its hypothetical nature, it may not give a true picture of the financial position, financial performance and cash flows of the Group had the Investment and Construction Agreement been completed as at 30 June 2015 and 1 January 2015 respectively, or at any future date.

The Unaudited Pro Forma Financial Information should be read in conjunction with other financial information included elsewhere in this circular.

(I) UNAUDITED PRO FORMA CONSOLIDATED BALANCE SHEET OF THE GROUP AS AT 30 JUNE 2015

	Unaudited consolidated balance sheet of the Group RMB'000 <i>Note 1</i>	Pro forma adjustments		Unaudited pro forma adjusted consolidated balance sheet of the Group RMB'000
		RMB'000 <i>Note 2</i>	RMB'000 <i>Note 3</i>	
ASSETS				
Current assets				
Cash at bank and in hand	1,632,317	7,110,000	(7,158,230)	1,584,087
Accounts receivables	190,298	-	-	190,298
Advances to suppliers	3,131	-	-	3,131
Interest receivable	2,439	-	-	2,439
Other receivables	9,208	-	-	9,208
Inventories	234	-	-	234
Other current assets	6,190	-	50,415	56,605
Total current assets	1,843,817	7,110,000	(7,107,815)	1,846,002
Non-current Assets				
Long-term receivables	380,000	-	-	380,000
Long-term equity investments	1,138,946	-	-	1,138,946
Fixed assets	1,029,900	-	5,984,712	7,014,612
Construction in progress	259,463	-	-	259,463
Intangible assets	179,696	-	1,123,103	1,302,799
Deferred tax assets	12,965	-	-	12,965
Other non-current assets	860,443	-	-	860,443
Total non-current assets	3,861,413	-	7,107,815	10,969,228
Total assets	5,705,230	7,110,000	-	12,815,230

APPENDIX II

UNAUDITED PRO FORMA FINANCIAL
INFORMATION OF THE GROUP

	Unaudited consolidated balance sheet of the Group RMB'000 <i>Note 1</i>	Pro forma adjustments RMB'000 <i>Note 2</i> <i>Note 3</i>		Unaudited pro forma adjusted consolidated balance sheet of the Group RMB'000
LIABILITIES				
Current liabilities				
Accounts payable	17,158	-	-	17,158
Advances from customers	7,434	-	-	7,434
Employee benefits payable	16,577	-	-	16,577
Taxes payable	30,777	-	-	30,777
Interest payable	18,877	-	-	18,877
Dividends payable	19,090	-	-	19,090
Other payables	153,958	-	-	153,958
Current portion of non-current liabilities	520,559	-	-	520,559
Total current liabilities	784,430	-	-	784,430
Non-current liabilities				
Long-term borrowings	966,684	5,110,000	-	6,076,684
Corporate bonds	794,275	2,000,000	-	2,794,275
Long-term payable	55,250	-	-	55,250
Long-term employee benefits payable	1,718	-	-	1,718
Other non-current liabilities	17,956	-	-	17,956
Total non-current liabilities	1,835,883	7,110,000	-	8,945,883
Total liabilities	2,620,313	7,110,000	-	9,730,313
Shareholders' equity				
Share capital	473,213	-	-	473,213
Capital surplus	668,586	-	-	668,586
Surplus reserve	246,394	-	-	246,394
Undistributed profits	1,676,883	-	-	1,676,883
Total equity attributable to share holders of the Company	3,065,076	-	-	3,065,076
Minority interest	19,841	-	-	19,841
Total equity	3,084,917	-	-	3,084,917
Total liabilities and equity	5,705,230	7,110,000	-	12,815,230

(II) UNAUDITED PRO FORMA CONSOLIDATED INCOME STATEMENT OF THE
GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Unaudited consolidated income statement of the Group RMB'000 <i>Note 1</i>	Pro forma adjustment RMB'000 <i>Note 4</i>	Unaudited pro forma adjusted consolidated income statement of the Group RMB'000 <i>Note 4</i>
Revenue	571,694	-	571,694
Operating costs	(215,574)	-	(215,574)
Taxes and surcharges	(10,835)	-	(10,835)
General and administrative expenses	(26,582)	-	(26,582)
Financial expenses – net	(11,364)	-	(11,364)
Provision of asset impairment	(682)	-	(682)
Investment income	10,799	-	10,799
Operating profit	317,456	-	317,456
Non-operating income	882	-	882
Non-operating expenses	(6,072)	-	(6,072)
Total profit	312,266	-	312,266
Income tax expenses	(75,641)	-	(75,641)
Net profit	236,625	-	236,625
Attributable to shareholders of the Company	232,036	-	232,036
Minority interest	4,589	-	4,589
	236,625	-	236,625

(III) UNAUDITED PRO FORMA CONSOLIDATED STATEMENT OF CASH FLOWS
OF THE GROUP FOR THE SIX MONTHS ENDED 30 JUNE 2015

	Unaudited consolidated statement of cash flows of the Group RMB'000 <i>Note 1</i>	Pro forma adjustments		Unaudited pro forma adjusted consolidated statement of cash flows of the Group RMB'000 <i>Note 4</i>
		RMB'000 <i>Note 2</i>	RMB'000 <i>Note 3</i>	
Cash flows from operating activities				
Cash received from sales of goods or rendering of services	518,443	-	-	518,443
Cash received relating to other operating activities	103,384	-	-	103,384
Sub-total of cash inflows	621,827	-	-	621,827
Cash paid for goods and services	(146,277)	-	-	(146,277)
Cash paid to and on behalf of employees	(67,326)	-	-	(67,326)
Payments of taxes and surcharges	(110,208)	-	-	(110,208)
Cash paid relating to other operating activities	(82,468)	-	-	(82,468)
Sub-total of cash outflows	(406,279)	-	-	(406,279)
Net cash flows from operating activities	215,548	-	-	215,548
Cash flows from investing activities				
Net cash received from disposal of fixed assets	39	-	-	39
Net cash paid for acquisition of fixed assets, intangible assets and other long-term assets	(109,481)	-	(7,158,230)	(7,267,711)
Net cash flows from investing activities	(109,442)	-	(7,158,230)	(7,267,672)

	Unaudited consolidated statement of cash flows of the Group RMB'000 <i>Note 1</i>	Pro forma adjustments		Unaudited pro forma adjusted consolidated statement of cash flows of the Group RMB'000 <i>Note 4</i>
		RMB'000 <i>Note 2</i>	RMB'000 <i>Note 3</i>	
Cash flows from financing activities				
Cash received from borrowings	-	5,110,000	-	5,110,000
Cash received from issuance of corporate bonds	-	2,000,000	-	2,000,000
Cash repayments of borrowings	(209,946)	-	-	(209,946)
Cash payments for distribution of dividends or profits and interest expenses	(129,952)	-	-	(129,952)
Cash payments relating to other financing activities	(21,867)	-	-	(21,867)
Net cash flows from financing activities	(361,765)	7,110,000	-	6,748,235
Effect of foreign exchange rate changes on cash	3,419	-	-	3,419
Net (decrease)/increase in cash	(252,240)	7,110,000	(7,158,230)	(300,470)
Add: Cash at beginning of the period	1,884,557	-	-	1,884,557
Cash at end of the period	1,632,317	7,110,000	(7,158,230)	1,584,087

- Note 1: The amounts are extracted from the unaudited consolidated balance sheet of the Group as at 30 June 2015, the unaudited consolidated income statement and the unaudited consolidated cash flow statement of the Group for the six months ended 30 June 2015 as set out in the published interim report of the Company for the six months ended 30 June 2015.
- Note 2: The Company intends to raise funds through long-term borrowings and issuance of bonds in order to construct the Company Construction Project. The adjustment represents i) the long-term borrowing amounting to RMB0.95 billion through the asset-backed securitization plan; ii) the long-term project loan amounting to RMB4.16 billion borrowed from China Development Bank, Hainan Branch; and iii) the issuance of public offering bonds or making private placement amounting to approximately RMB1-2 billion. For the purpose of this Unaudited Pro Forma Financial Information, it is assumed that the amount of corporate bonds to be issued is RMB2 billion and all the above-mentioned borrowings and corporate bonds are repayable over one year. Through the above fund-raising activities, the Company will receive all financing proceeds of approximately RMB7.11 billion.
- Note 3: The adjustment represents i) the consideration of acquiring the land use right amounting to RMB1,123,103,000; ii) the construction and other costs directly related to construction of the Company Construction Project amounting to RMB5,558,612,000 which is determined with reference to the estimated construction costs agreed under the Investment and Construction Agreement, and the interest capitalisation of RMB426,100,000 during the construction period; and iii) deductible Value Added Tax arising from the purchase of equipment and payment for services amounting to RMB50,415,000. As the Company Construction Project progresses, the actual aggregate amounts to be invested by the Group under the Investment and Construction Agreement may be different from the estimated amounts set out in the Feasibility Study Report which are used in preparing this Unaudited Pro Forma Financial Information, and such differences may be significant.
- Note 4: For the purpose of preparing the pro forma consolidated income statement and the pro forma consolidated statement of cash flows, the directors of the Company consider it is impracticable to estimate the revenue to be generated from the assets acquired under the Investment and Construction Agreement.

The table below presents the estimated amounts of depreciation on property, plant and equipment, amortisation on intangible assets, interest expenses on bank borrowings, asset-backed securitised borrowings and corporate bonds and the corresponding tax effects for the six months ended 30 June 2015, assuming that the assets under the Investment and Construction Agreement were acquired on 1 January 2015. The estimated amounts of depreciation and amortisation are determined in accordance with the accounting policies

currently adopted by the Group. The interest expenses on bank borrowings, asset-backed securitised borrowings and corporate bonds are calculated based on the interest rate of 6.55% per annum according to the Feasibility Study Report. All the depreciation, amortisation, interest expenses and the corresponding tax effects will have a continuing effect on the performance of the Group, whilst the interest expenses and the corresponding tax effects will have a continuing effect on the cash flows of the Group.

	<i>RMB'000</i>
Depreciation on fixed assets	77,462
Amortisation on intangible assets	8,903
Interest expenses on bank borrowings, asset-backed securitised borrowings, and Corporate bonds	232,853
Tax effects	<u>(79,805)</u>
	<u>239,413</u>

The Directors of the Company are of the view that presenting the above costs and expenses relating to the assets acquired under the Investment and Construction Agreement without presenting the corresponding revenue to be generated from the assets acquired under the Investment and Construction Agreement in the Unaudited Pro Forma Financial Information will render such information misleading from readers' perspectives. Therefore, the Directors believe it is more appropriate to disclose the above costs and expenses by way of notes instead of presenting them as pro forma adjustments.

Note 5: Apart from Notes 2 and 3 above, no other adjustment has been made to reflect any trading results or other transactions of the Group entered into subsequent to 30 June 2015.

Note 6: The above adjustments are not expected to have a continuing effect on the unaudited pro forma consolidated income statement of the Group and the unaudited pro forma consolidated cash flow statement of the Group.

B. REPORT ON UNAUDITED PRO FORMA FINANCIAL INFORMATION OF THE GROUP

The following is the text of a report received from PricewaterhouseCoopers Zhong Tian LLP, for the purpose of incorporation in this circular.



普华永道

2015/SH-238/CYT/ADWW

**INDEPENDENT REPORTING ACCOUNTANT'S ASSURANCE REPORT ON THE
COMPILATION OF UNAUDITED PRO FORMA FINANCIAL INFORMATION
INCLUDED IN A CIRCULAR**

To the Directors of HNA Infrastructure Company Limited

We have completed our assurance engagement to report on the compilation of unaudited pro forma financial information of HNA Infrastructure Company Limited (the “**Company**”) and its subsidiaries (collectively the “**Group**”) by the directors for illustrative purposes only. The unaudited pro forma financial information consists of the unaudited pro forma consolidated balance sheet as at 30 June 2015, the unaudited pro forma consolidated income statement for the six months ended 30 June 2015, the unaudited pro forma consolidated cash flow statement for the six months ended 30 June 2015, and related notes (the “**Unaudited Pro Forma Financial Information**”) as set out on pages II-1 to II-7 of the Company’s circular dated 7 October 2015, in connection with the proposed transaction in relation to the Investment and Construction Agreement (the “**Transaction**”). The applicable criteria on the basis of which the directors have compiled the Unaudited Pro Forma Financial Information are described on pages II-1 to II-7.

The Unaudited Pro Forma Financial Information has been compiled by the directors to illustrate the impact of the Transaction on the Group’s financial position as 30 June 2015 and the Group’s financial performance and cash flows for the six months ended 30 June 2015 as if the Transaction had taken place at 30 June 2015 and 1 January 2015 respectively. As part of this process, information about the Group’s financial position, financial performance and cash flows has been extracted by the directors from the Group’s financial statements for the six months ended 30 June 2015, on which no review report has been published.

普華永道中天會計師事務所(特殊普通合夥)

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Directors' Responsibility for the Unaudited Pro Forma Financial Information

The directors are responsible for compiling the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules") and with reference to Accounting Guideline 7 "Preparation of Pro Forma Financial Information for Inclusion in Investment Circulars" ("AG 7") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

Reporting Accountant's Responsibilities

Our responsibility is to express an opinion, as required by paragraph 4.29(7) of the Listing Rules, on the Unaudited Pro Forma Financial Information and to report our opinion to you. We do not accept any responsibility for any reports previously given by us on any financial information used in the compilation of the Unaudited Pro Forma Financial Information beyond that owed to those to whom those reports were addressed by us at the dates of their issue.

We conducted our engagement in accordance with Hong Kong Standard on Assurance Engagements 3420 "Assurance Engagements to Report on the Compilation of Pro Forma Financial Information Included in a Prospectus", issued by the HKICPA. This standard requires that the reporting accountant comply with ethical requirements and plan and perform procedures to obtain reasonable assurance about whether the directors have compiled the Unaudited Pro Forma Financial Information in accordance with paragraph 4.29 of the Listing Rules and with reference to AG 7 issued by the HKICPA.

For purposes of this engagement, we are not responsible for updating or reissuing any reports or opinions on any historical financial information used in compiling the Unaudited Pro Forma Financial Information, nor have we, in the course of this engagement, performed an audit or review of the financial information used in compiling the Unaudited Pro Forma Financial Information.

The purpose of unaudited pro forma financial information included in a circular is solely to illustrate the impact of a significant event or transaction on unadjusted financial information of the entity as if the event had occurred or the transaction had been undertaken at an earlier date selected for purposes of the illustration. Accordingly, we do not provide any assurance that the actual outcome of the Transaction at 30 June 2015 or 1 January 2015 would have been as presented.

A reasonable assurance engagement to report on whether the unaudited pro forma financial information has been properly compiled on the basis of the applicable criteria involves performing procedures to assess whether the applicable criteria used by the directors in the compilation of the unaudited pro forma financial information provide a reasonable basis for presenting the significant effects directly attributable to the event or transaction, and to obtain sufficient appropriate evidence about whether:

- The related pro forma adjustments give appropriate effect to those criteria; and

- The unaudited pro forma financial information reflects the proper application of those adjustments to the unadjusted financial information.

The procedures selected depend on the reporting accountant's judgment, having regard to the reporting accountant's understanding of the nature of the company, the event or transaction in respect of which the unaudited pro forma financial information has been compiled, and other relevant engagement circumstances.

The engagement also involves evaluating the overall presentation of the unaudited pro forma financial information.

We believe that the evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Opinion

In our opinion:

- (a) the Unaudited Pro Forma Financial Information has been properly compiled by the directors of the Company on the basis stated;
- (b) such basis is consistent with the accounting policies of the Group; and
- (c) the adjustments are appropriate for the purposes of the Unaudited Pro Forma Financial Information as disclosed pursuant to paragraph 4.29(1) of the Listing Rules.

PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

7 October 2015

1. BACKGROUND

A. HNA Infrastructure Company Limited

Haikou Meilan International Airport commenced service on 25 May, 1999, with beautiful scenery, spectacular view and up to 99.6% of greenbelt area ratio, it was considered as China's No. 1 ecological landscape garden airport. In early 2015, "Hainan Meilan International Airport Company Limited" changed its name to "HNA Infrastructure Company Limited".



In recent years, Meilan International Airport has developed rapidly, the transportation capacity rises over the years, and it has led to a sustained growth rate of annual passenger throughput at 10% above. As at 26 December 2011, the passenger throughput of Meilan International Airport had a breakthrough of 10,000,000, which was considered on a par with other major airports in Mainland China. In March 2012, the National Development and Reform Commission agreed to implement the Haikou Meilan International Airport Phase II Expansion Construction. Haikou Meilan International Airport Phase II Expansion Construction will be built in conformity with the standards of a 5-star airport.

To satisfy the relevant requirements pursuant to the listing of HNA infrastructure Company Limited (hereinafter referred to as "HNA Infrastructure"), as at August 2015, Chelbi Engineering Consultants, Inc. was commissioned by HNA Infrastructure to conduct a forecast on the traffic of Haikou Meilan International Airport in the coming 30 years (year of prospects: 2044) for the purpose of incorporation in the circular.

B. Chelbi Engineering Consultants, Inc.

Chelbi Engineering Consultants, Inc. (hereinafter referred as "Chelbi Inc.") was established in 1984 and was co-invested by China Communication Construction Company Limited's affiliation, CCCC Highway Consultants CO., Ltd (HPDI, originally Research Institute of Highway, Ministry of Transport) and Louis Berger Group, Inc., It was one of the earliest engineering consultants companies incorporated by a Chinese partner and a foreign company to be established in Mainland China, which is currently one of the largest joint venture engineering consultants companies in Mainland China as well and is principally engaged in businesses such as investigation of communication development strategy, planning of communication and construction engineering project, feasibility study, International Financial Institution loan technical assistance topical study, survey and design, tender consultation and bidding agency, project assessment, project management, traffic safety study and consultation on the financing and marketization operation of communication infrastructure project, etc.

C. Study basis

The report collects base data that is relatively complete to use as an important reference for the traffic study, as follows:

- Haikou Meilan International Airport 2005-2014 Air Transport Statistics;
- Sanya Phoenix International Airport 2006-2014 Air Transport Statistics;
- Global Economic Prospects (Asia-Pacific region), the World Bank (June, 2015);
- World Economic Outlook Update, the International Monetary Fund (July, 2015);
- GDP Forecast (each country), official website of Trading economics;
- Haikou Meilan International Airport Phase II Expansion Construction Feasibility Study Report (July, 2013);
- The development of civil aviation in China and the aviation industry of other major cities across the country;
- Historic statistic yearbook and statistic communiqué of Hainan Province;
- Hainan International Tourism Island Construction Development Plan (2010-2020);
- Related regulations and standards of other industries.

To expressly indicate, the information providers are responsible for the accuracy and validity of the foresaid information, Chelbi Inc. has not solely verified any of the foresaid information.

2. MEILAN INTERNATIONAL AIRPORT HISTORICAL DEVELOPMENT TREND

Being a modernized 4E-rating civil airport, Haikou International Airport has been developing rapidly in recently years, the three indicators, which include, passenger throughput, cargo throughput, aircraft movement, retains a relatively fast growing momentum. Viewing the matter from the annual rate of growth (from 2005 to 2014), the growth rate of passenger throughput, cargo throughput and aircraft movement is 7.8%, 8.0% and 6.5% respectively, the increase in ratio of wide-body aircraft, large passenger aircraft allows aircraft movement, under certain circumstances, to be able to fulfill the increasing demand for transportation.

Notwithstanding a slight decrease in the passenger throughput of Meilan International Airport in 2006, the remaining years retain a relatively fast growth. The passenger throughput of Meilan International Airport from 2005 to 2014 is shown in the table below.

Table 1 – Historic passenger throughput of Meilan International Airport fact sheet (Unit: people/year)

Year	Total	Domestic	International	Regional
2005	7,027,397	6,799,474	88,015	139,908
2006	6,668,016	6,397,147	140,299	130,570
2007	7,265,352	6,926,203	165,270	173,879
2008	8,221,997	7,871,710	189,079	161,208
2009	8,391,165	8,083,307	151,893	155,965
2010	8,773,771	8,416,614	191,481	165,676
2011	10,167,502	9,779,671	189,135	198,696
2012	10,696,721	10,266,721	191,347	238,653
2013	11,935,470	11,460,903	186,739	287,828
2014	13,853,859	13,307,062	244,889	301,908
Annual average growth rate (2005-2014)	7.8%	7.7%	12.0%	8.9%

The cargo throughput of Meilan International Airport from 2005 to 2014 is shown in the table below.

Table 2 – Historic cargo throughput of Meilan International Airport Fact sheet (Unit: ton/year)

Year	Total	Domestic	International	Regional
2005	60,590.3	60,103.1	212.3	274.9
2006	62,510.1	62,072.5	213.3	224.3
2007	69,791	69,265.3	65.8	459.9
2008	74,062.6	73,537.4	167	358.2
2009	77,786.1	77,476	137.4	172.7
2010	91,667.3	91,312.3	86.5	268.5
2011	97,826.9	97,414.1	107.9	304.9
2012	99,945	99,183.4	352.8	408.8
2013	111,813.6	110,876.6	382.6	554.4
2014	121,131.5	120,214.6	464.7	452.2
Annual average growth rate (2005-2014)	8.0%	8.0%	9.1%	5.7%

The aircraft movement of Meilan International Airport from 2005 to 2014 is shown in the table below.

Table 3 – Aircraft movement of Meilan International Airport fact sheet (Unit: time/year)

Year	Total	Domestic	International	Regional
2005	57,994	55,498	934	1,562
2006	54,222	51,389	1,187	1,646
2007	56,872	53,675	1,387	1,810
2008	63,100	59,895	1,508	1,697
2009	65,186	62,444	1,290	1,452
2010	67,501	64,551	1,551	1,399
2011	75,528	72,360	1,516	1,652
2012	79,886	76,002	1,651	2,233
2013	88,859	84,652	1,724	2,483
2014	102,130	96,839	2,870	2,421
Annual average growth rate (2005-2014)	6.5%	6.4%	13.3%	5.0%

As observed from table 1 to table 3, the annual average growth rate of international passengers, international cargo and international aircraft movement is among the highest. It is closely associated with the internationalized development trend of the economic society of Hainan Province.

3. ANALYSIS ON FACTORS AFFECTING FUTURE DEVELOPMENT OF AIR TRANSPORT SERVICE OF MEILAN INTERNATIONAL AIRPORT

A. GDP

Economic and social development and the increase in its incidental disposable income is the key factor to promote international, regional and domestic air travel. The relationship between GDP and travel frequency in each market is rather intimate. The economic situation of China is particularly important, as it is the key driver to promote the growth of air travel in China and the increase in domestic passenger. The economic situation of countries where the incoming passengers belong to is equally important, the following table provides the GDP of related countries and regions and is deemed the basis upon which we forecast the airport transport base scenario. The forecast of underestimation scenario is based on the GDP growth rate which is 1% less than the estimation, and the forecast of overestimation scenario is based on the GDP growth rate which is 1% more than the estimation.

Table 4 – The GDP growth rate forecast of major source countries of Meilan International Airport 2015-2045 (%)

Source Market	2015	2016	2017	2018-2020	2021-2030	2031-2040	2041-2044
China	7.1	7.0	6.9	6.7*	6.0*	5.0*	4.0*
Hainan Province	8.3*	8.3*	8.3*	8.3*	7.6*	6.5*	5.0*
Hong Kong	3.5*	3.5*	3.5*	3.0*	3.0*	2.5*	2.0*
Taiwan	0.75*	1.17*	1.54*	2.84	2.8*	2.88*	2.96
Korea	2.3	3.0	2.7	2.7	2.7	2.7	2.7
Japan	1.6*	1.9*	2.3*	2.08	2.25*	2.4*	2.55
Singapore	1.21*	1.31*	1.56*	1.74	1.74*	1.74*	1.74
Thailand	3.5	4.0	4.0	2.75	2.6*	2.3*	2.19
Malaysia	4.7	5.0	5.1	4.84	4.5*	4.18*	3.86
Vietnam	6.0	6.2	6.5	6.4	6.35*	6.28*	6.23
The Philippines	6.5	6.5	6.3	4.5	3.6*	2.7*	1.75
Indonesia	4.7	5.5	5.5	5.03	4.28*	3.53*	2.79
Cambodia	6.9	6.9	6.8	7.75	7.76*	7.78*	7.79
India	7.4	7.8	8.0	6.8	6.0*	5.2*	4.5
The Maldives	5.3	5.0	5.0	3.36	3.36*	3.36*	3.36
Sri Lanka	6.9%	6.6%	6.5%	6.82%	6.82%*	6.82%*	6.82%

Notes: 1. Data sources: Global Economic Prospects (Asia-Pacific region), The World Bank (Jun, 2015), Global Economic Prospects (South Asia region), The World Bank (Jun, 2015) and Trading economics official website;

2. “*” represents the results estimated pursuant to the data sources.

B. Hainan International Tourism Island

As a national material strategic deployment, our country will initially develop Hainan as the world’s first class recreational resort island in 2020, to be the island of liberalization, the island of green, the island of civilization, the island of harmony.

According to the development goal of Hainan International Tourism Island, the tourist service facility, operation management and service quality will be in full convergence with international tourist service standards by 2020, to initially develop the world’s first class recreational resort island. The weighing of the increase rate of tourism industry to the regional GDP takes up to 12% above, the weighing of the increase rate of tertiary industry to the regional GDP takes up to 60% and the number of tertiary industry worker takes up to 60%, to optimize the GDP of the province, the income of rural and urban residents and the quality of life to get on the country’s advanced level, to pursue excellent comprehensive ecology quality as to continue maintaining its leading position in the country, and to strive to further improve its sustainability.

Transportation infrastructure is a major support to the construction of Hainan International Tourism Island. The planned construction of the Qiongzhou Straits Sea Crossing Bridge will be separated into two stories, of which the railway bridge is a quadruple-lane bridge, the designated speed for civil train is 160 km/hour, the speed of cargo train is 120 km/hour, the designated speed for highway bridge is 100 km/hour. The construction scenario and timetable of Sea Crossing Engineering Project of Qiongzhou Straits preliminarily determined that the Sea Crossing Bridge will strive to commence operation in 2020. The sea crossing roadway directly brings the economy of Hainan and Guangzhou and even the whole country closely together, it does not only foster the development of Hainan, but also allows coastal manufacturing industry of southeast China to penetrate deeply into Southeast Asian market to create better opportunities, and the construction of International Tourism Island can let Hainan become a brand new international consumer market, which is beneficial to China to establish its own-built image in the world. Furthermore, the development of Hainan is also beneficial to exploit and manipulate petroleum gas resource in the South China Sea, which is favorable to China protecting the completeness of its territory in the South China Sea.

C. Impacts on Sanya Phoenix International Airport

Sanya Phoenix International Airport is a domestic airport, it spans 463.32 hectares, and the floor area of the terminal is 65,300 square metres. Phoenix International Airport has established 3 base companies, there are up to 32 airline companies that have flights to Sanya, of which 22 of them are domestic airline companies and 10 of them are international and regional airline companies; there are 287 routes in operation (of which 228 of them are domestic routes, 56 of them are international routes, 3 of them are regional routes); with flights to 131 local and foreign cities (of which 76 of them are domestic cities, 3 of them are regional cities, 52 of them are international cities); there are 32 airline companies in operation (of which 22 of them are domestic airline companies and 10 of them are international and regional airline companies). The airport is evaluated as SKYTRAX 4-star airport. The comparison between Sanya Phoenix International Airport and Haikou Meilan International Airport is shown in the figure below.

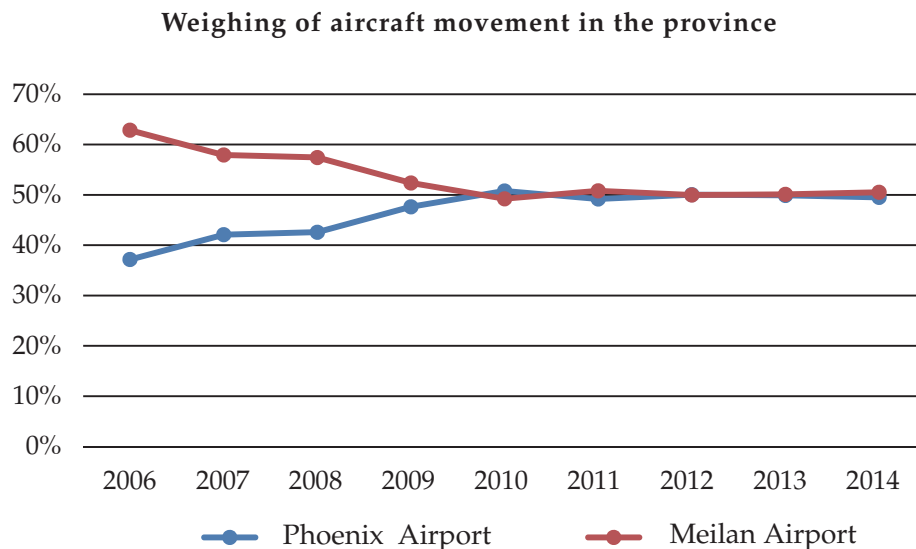


Figure 1 – Figure of aircraft movement weighing of Sanya Phoenix International Airport and Haikou Meilan International Airport

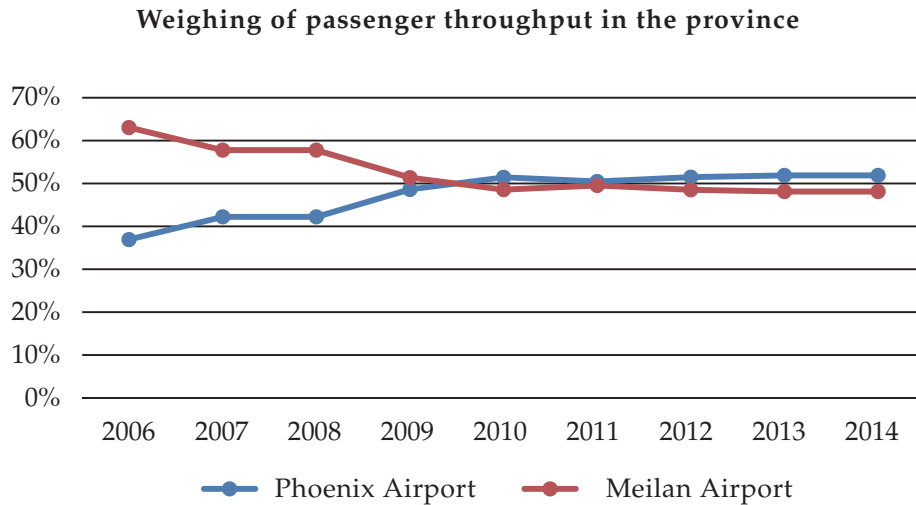


Figure 2 – Figure of passenger throughput weighing of Sanya Phoenix International Airport and Haikou Meilan International Airport

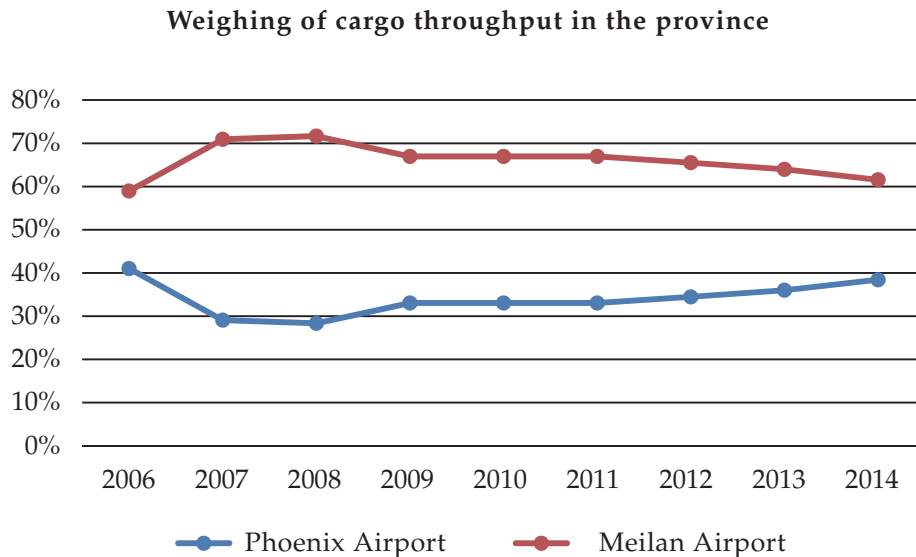


Figure 3 – Figure of cargo throughput weighing of Sanya Phoenix International Airport and Haikou Meilan International Airport

As for the aircraft movement, Sanya Phoenix International Airport and Haikou Mailan International Airport remains flat; as for the passenger throughput, Sanya Phoenix International Airport is slightly higher than Haikou Mailan International Airport; as for the cargo throughput, Sanya Phoenix International Airport is relatively lower.

According to the growth rate of the three indicators, the aircraft movement and the annual average growth rate of passengers approximately doubles the amount of Haikou Meilan International Airport, up to 15.3% and 18.3% respectively. Whereas, the growth rate of cargo throughput of Sanya Phoenix International Airport is relatively lower, which is 7.2% and it is 1.4 percentage point lower than that of Haikou Meilan International Airport.

Sanya Phoenix International Airport, being one of the two 4E-rating airports in Hainan Province, plays an important role in the traffic diversion to Haikou Meilan International Airport, they are jointly engaged in the air freight business of Hainan Province. In 2014, the passenger throughput of Sanya Phoenix International Airport was 1,494 passengers. Sanya Phoenix International Airport is currently undergoing the phase III expansion construction. Upon the completion of the project, it is guaranteed that the airport will reach a 25,000,000-passenger throughput each year, to provide better services to passengers.

D. Service and fare levels of airline companies

Fare level is a crucial determining factor affecting the demand in aviation, the key factor that affects the fares of Meilan International Airport is attributable to the fluctuation in global crude oil prices, and internal competition within the airline industry. In the short-run, as the international crude oil price remains in the doldrums, the 31 airline companies of Meilan International Airport are in adequate market competitions. In the long-run, the main factor affecting the fares is attributable to the advancement in technology which leads to an improvement in function efficiency of aircrafts.

E. Capacity constraints

Meilan International Airport can satisfy an annual passenger throughput of 15,000,000 passengers. In 2014, the passenger throughput of Meilan International Airport was 13,854,000 passengers, facilities like the airport terminal and airfield were gradually saturated, which imposed pressure upon the operation of the airport.

Meilan International Airport is currently undergoing the phase II expansion construction, the year of 2020 will be the target year of construction. It is guaranteed that the airport can satisfy demand for an annual passenger throughput of 30,000,000 passengers, an annual cargo throughput of 300,000 tons, an annual aircraft movement of 225,000 times. Meanwhile, the phase II expansion construction not only drastically improves current position of existing infrastructure in the airport, but also further fosters economic society development of Haikou City and even the surrounding area.

F. Aircraft models

Meilan International Airport, currently being a 4E-ranking airport itself, can satisfy the takeoff requirements of a fully loaded Boeing 747-400. In the course of the phase II expansion construction of Meilan International Airport, it includes a 3,600-metre runway. After the construction is implemented, Meilan International Airport will form two airfields, namely the north airfield and south airfield, of which the north airfield is ranked the 4F grade and it is able to satisfy the takeoff and landing requirements of A380, the biggest commercial plane. The maximum takeoff weight and the required runway length of each aircraft model is shown in the table below.

Table 5 – The maximum takeoff weight and the required runway length of each aircraft model

Model	Number of seats (Person)	Cargo (Ton)	Maximum structural weight (ton)	Actual takeoff weight (Ton)	Runway length (Meter)
B747-200	–	93.8	377.84	377.8	3,600
B747-400	334	28.18	385.5	385.5	3,630
B777-200	345	16.2	242.67	242.67	2,800
A330-200	283	18.85	233.0	233	3,200
A340-313	370	15.3	271.0	271	3,750
A380-841	555	66.4	560.0	560	3,600

4. AIR TRAFFIC FORECAST OF MEILAN INTERNATIONAL AIRPORT

The traffic forecast of Meilan International Airport adopts the method of econometric model, such model has been widely recognized by the industry. It is garnered as the industry’s “best practice” by organizations like International Civil Aviation Organization (ICAO) and the Department of Transport of the United Kingdom.

According to the acquired historical information regarding the passenger throughput, cargo throughput and aircraft movement of Meilan International Airport, based on the analysis on regional, national economic society and current position of transportation, this report combines the national, regional economic prospects provided by the World Bank and the International Monetary Fund, in order to further predict its trend type economic society development, to adapt elastic coefficient method to estimate future passenger throughput, cargo throughput and aircraft movement.

- **Elastic coefficient method**

Through analyzing the variation of economic activities and social activities, by analyzing the relationship between them and transportation, we can capture the variation generated by transportation more precisely. Transportation expedition is in accordance with the forecast result of economic society, applying elastic coefficient method to estimate future passenger throughput, cargo throughput and aircraft movement. Elastic coefficient method is to capture the relevant relationship between economic development and transportation as a whole. The formula of elastic coefficient is shown below:

$$\text{Elastic coefficient } e = \frac{\text{Percentage of the change of transportation indicators}}{\text{Percentage of the change of economic indicators}}$$

According to the analysis on the relevant index, generally we would use the growth rate of passenger throughput, cargo throughput and aircraft movement for regression analysis, to calculate its elastic coefficient, and by referring to these coefficients, we are able to determine the future elastic coefficient.

During the course of analyzing the traffic of regional and international airport, regions and international countries (i.e. Hong Kong and Korea) that we most often deal with are used as the typical method for analysis. Through analyzing Hong Kong's and Korean economic society development and the airport's historic districts and international traffic, we can determine the future regional and international elastic coefficient of the airport in order to estimate traffic growth.

Under the background of the PRC vigorously developing the tourism industry of Hainan Province, the passenger throughput of airports in Hainan Province is closely related to the country's economic development. Therefore, utilizing the country's GDP to forecast domestic flight traffic is relatively objective and possible.

- **The elastic coefficient forecast of future transportation expedition**

In the beginning stage of the airport's development, economic development has a relatively high demand on transportation, the development of transportation expedition presents a booming growth, and the elastic coefficient of cargo expedition is relatively high at this moment. When the development of airport reaches its saturation point, flights gradually become stable and due to the airport's capacity constrain, throughput will gradually deteriorate, the development trend of the airport traffic and the development trend of economy gradually slow down at this point, and the elastic coefficient gradually decreases.

During the course of this forecast on Meilan International Airport's domestic, regional, international passenger, cargo throughput, pursuant to the GDP development trend reports regarding the country and analysis on typical countries or regions (i.e. Korea, Hong Kong) published by institutions like the World Bank, the elastic coefficient which is analyzed through historic traffic and GDP, to forecast the growth of future traffic.

- **Future airport traffic growth rate forecast**

On account of forecast on the elastic coefficient of the speed of economic development and airport throughput as noted above, we are able to calculate the future traffic growth rate, the formula is:

$$\gamma k(h) = Tk(h) \cdot E$$

In the formula : $\gamma k(h)$ – Airport traffic throughput growth rate (%);
 $Tk(h)$ – Transportation elastic coefficient;
 E – GDP growth rate (%).

A. AVIATION PASSENGERS FORECAST

1. Domestic passengers throughput forecast

According to the forecast, as for the base scenario, the domestic passenger throughput of Meilan International Airport will reach 55,290,000 in 2044 which is equivalent to an annual average growth rate of 4.9% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 4.1% and 5.7% in the upcoming thirty years respectively. For detail, please refer to table 6.

Table 6 – Domestic passenger throughput forecast (Unit: people/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2014	13,307,000	13,307,000	13,307,000
2015	14,687,000	14,913,200	15,139,400
2016	16,185,000	16,687,800	17,198,400
2017	17,808,400	18,645,300	19,508,100
2018	19,534,000	20,769,000	22,061,700
2019	21,426,900	23,134,600	24,949,600
2020	23,503,200	25,769,700	28,215,500
2024	27,495,400	31,085,300	35,086,800
2034	37,658,300	45,458,800	54,761,600
2044	43,956,800	55,294,700	69,400,700

Annual average growth rate (%)

2015-2020	9.9	11.6	13.3
2015-2024	7.5	8.9	10.2
2015-2034	5.3	6.3	7.3
2015-2044	4.1	4.9	5.7

2. International passenger throughput forecast

According to the forecast, as for the base scenario, the international passenger throughput of Meilan International Airport will reach 8,610,000 in 2044 which is equivalent to an annual average growth rate of 12.6% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 8.0% and 17.1% in the upcoming thirty years respectively. For detail, please refer to table 7.

Table 7 – Domestic passenger throughput forecast (Unit: people/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2014	244,800	244,800	244,800
2015	276,700	301,200	325,700
2016	332,000	391,500	455,900
2017	388,500	497,300	624,600
2018	454,500	631,500	855,800
2019	531,800	802,100	1,172,400
2020	622,200	1,018,600	1,606,300
2024	917,600	1,857,100	3,581,900
2034	1,878,700	5,642,300	15,869,300
2044	2,456,200	8,605,600	28,164,400
Annual average growth rate (%)			
2015-2020	16.8	26.8	36.8
2015-2024	14.1	22.5	30.8
2015-2034	10.7	17.0	23.2
2015-2044	8.0	12.6	17.1

3. Regional passenger throughput forecast

According to the forecast, as for the base scenario, the regional passenger throughput of Meilan International Airport will reach 5,060,000 in 2044 which is equivalent to an annual average growth rate of 9.9% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 6.6% and 13.1% in the upcoming thirty years respectively. For detail, please refer to table 8.

Table 8 – Regional passenger throughput forecast (Unit: people/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2014	301,900	301,900	301,900
2015	347,100	365,300	383,400
2016	399,200	442,000	486,900
2017	459,100	534,800	618,400
2018	528,000	647,100	785,300
2019	607,200	783,000	997,400
2020	680,100	924,000	1,236,800
2024	925,200	1,453,900	2,239,400
2034	1,652,600	3,488,300	7,152,000
2044	2,053,400	5,060,000	12,080,400
Annual average growth rate (%)			
2015-2020	14.5	20.5	26.5
2015-2024	11.9	17.0	22.2
2015-2034	8.9	13.0	17.1
2015-2044	6.6	9.9	13.1

4. Total passenger throughput forecast

According to the forecast, as for the base scenario, the total passenger throughput of Meilan International Airport will reach 68,960,000 in 2044 which is equivalent to an annual average growth rate of 5.5% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 4.3% and 7.1% in the upcoming thirty years respectively. For detail, please refer to table 9.

Table 9 – Total passenger throughput forecast (Unit: people/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2014	13,853,800	13,853,800	13,853,800
2015	15,310,900	15,579,700	15,848,500
2016	16,916,400	17,521,400	18,141,300
2017	18,656,100	19,677,500	20,751,200
2018	20,516,600	22,047,800	23,703,000
2019	22,566,000	24,719,800	27,119,600
2020	24,805,500	27,712,400	31,058,700
2024	29,338,400	34,396,400	40,908,200
2034	41,189,600	54,589,400	77,783,100
2044	48,466,500	68,960,400	109,645,600
Annual average growth rate (%)			
2015-2020	10.2	12.2	14.4
2015-2024	7.8	9.5	11.4
2015-2034	5.6	7.1	9.0
2015-2044	4.3	5.5	7.1

B. AIR CARGO FORECAST

1. Domestic cargo forecast

According to the forecast, as for the base scenario, the domestic cargo throughput of Meilan International Airport will reach 620,000 tons in 2044 which is equivalent to an annual average growth rate of 5.6% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 4.7% and 6.5% in the upcoming thirty years respectively. For detail, please refer to table 10.

Table 10 – Domestic cargo throughput forecast (Unit: tons/year)

Year	Underestimate	Base scenario	Overestimate
	scenario		scenario
2014	120,200	120,200	120,200
2015	137,000	139,800	142,600
2016	155,900	162,300	168,800
2017	177,100	188,100	199,500
2018	200,300	217,100	234,800
2019	226,600	250,500	276,400
2020	256,300	289,100	325,400
2024	305,700	356,800	415,500
2034	424,200	529,600	659,100
2044	477,900	615,700	790,800
Annual average growth rate (%)			
2015-2020	13.4	15.7	18.1
2015-2024	9.8	11.5	13.2
2015-2034	6.5	7.7	8.9
2015-2044	4.7	5.6	6.5

2. International cargo forecast

According to the forecast, as for the base scenario, the international cargo throughput of Meilan International Airport will reach 32,000 tons in 2044 which is equivalent to an annual average growth rate of 15.2% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 9.6% and 20.6% in the upcoming thirty years respectively. For detail, please refer to table 11.

Table 11 – International cargo throughput forecast (Unit: tons/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2014	400	400	400
2015	500	600	600
2016	700	800	1,000
2017	800	1,200	1,600
2018	1,000	1,600	2,400
2019	1,300	2,200	3,700
2020	1,600	3,100	5,600
2024	2,200	5,200	11,000
2034	4,700	16,000	50,000
2044	7,300	32,200	128,800
Annual average growth rate (%)			
2015-2020	22.9	37.2	51.4
2015-2024	16.8	27.3	37.2
2015-2034	12.3	19.4	26.4
2015-2044	9.6	15.2	20.6

3. Regional cargo forecast

According to the forecast, as for the base scenario, the regional cargo throughput of Meilan International Airport will reach 39,000 tons in 2044 which is equivalent to an annual average growth rate of 16.0% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 10.9% and 21.0% in the upcoming thirty years respectively. For detail, please refer to table 12.

Table 12 – Regional cargo throughput forecast (Unit: tons/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2014	400	400	400
2015	600	600	700
2016	800	1,000	1,200
2017	1,100	1,600	2,100
2018	1,600	2,400	3,500
2019	2,200	3,700	5,900
2020	2,800	5,400	9,500
2024	3,900	8,500	17,200
2034	7,400	22,400	62,700
2044	10,200	38,900	136,200
Annual average growth rate (%)			
2015-2020	35.5	51.2	66.1
2015-2024	24.0	34.1	43.9
2015-2034	15.0	21.5	28.0
2015-2044	10.9	16.0	21.0

4. Total cargo forecast

According to the forecast, as for the base scenario, the total cargo throughput of Meilan International Airport will reach 690,000 tons in 2044 which is equivalent to an annual average growth rate of 6.0% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 4.8% and 7.5% in the upcoming thirty years respectively. For detail, please refer to table 13.

Table 13 – Total cargo throughput forecast (Unit: tons/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2014	121,100	121,100	121,100
2015	138,200	141,100	144,000
2016	157,500	164,200	171,100
2017	179,200	190,900	203,200
2018	203,000	221,200	240,800
2019	230,200	256,500	286,100
2020	260,900	297,700	340,500
2024	311,900	370,600	443,800
2034	436,300	568,000	771,900
2044	495,500	687,000	1,055,800
Annual average growth rate (%)			
2015-2020	13.6	16.2	18.8
2015-2024	9.9	11.8	13.9
2015-2034	6.6	8.0	9.7
2015-2044	4.8	6.0	7.5

C. AIRCRAFT MOVEMENT FORECAST

1. Domestic aircraft movement forecast

According to the forecast, as for the base scenario, the total domestic aircraft movement of Meilan International Airport will reach 380,000 in 2044 which is equivalent to an annual average growth rate of 4.6% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 3.9% and 5.4% in the upcoming thirty years respectively. For detail, please refer to table 14.

Table 14 – Domestic aircraft movement forecast (Unit: times/year)

Year	Underestimate	Base scenario	Overestimate
	scenario		scenario
2014	96,800	96,800	96,800
2015	107,400	109,200	110,900
2016	119,000	122,900	126,900
2017	131,700	138,200	144,900
2018	145,200	154,900	165,000
2019	160,100	173,600	187,900
2020	176,500	194,500	214,000
2024	206,500	234,600	266,100
2034	274,100	329,900	396,300
2044	305,200	378,400	468,100
Annual average growth rate (%)			
2015-2020	10.5	12.3	14.1
2015-2024	7.9	9.3	10.6
2015-2034	5.3	6.3	7.3
2015-2044	3.9	4.6	5.4

2. International aircraft movement forecast

According to the forecast, as for the base scenario, the total international aircraft movement of Meilan International Airport will reach 32,000 in 2044 which is equivalent to an annual average growth rate of 8.3% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 5.3% and 11.3% in the upcoming thirty years respectively. For detail, please refer to table 15.

Table 15 – International aircraft movement forecast (Unit: times/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2014	2,800	2,800	2,800
2015	3,200	3,400	3,700
2016	3,700	4,300	5,000
2017	4,300	5,400	6,700
2018	5,000	6,700	8,900
2019	5,700	8,400	11,900
2020	6,600	10,500	15,900
2024	8,100	14,300	24,300
2034	11,700	25,400	52,900
2044	13,400	31,500	70,800
Annual average growth rate (%)			
2015-2020	14.9	24.1	33.0
2015-2024	10.9	17.4	23.8
2015-2034	7.3	11.5	15.7
2015-2044	5.3	8.3	11.3

3. Regional aircraft movement forecast

According to the forecast, as for the base scenario, the total international aircraft movement of Meilan International Airport will reach 38,000 in 2044 which is equivalent to an annual average growth rate of 9.6% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 6.6% and 12.5% in the upcoming thirty years respectively. For detail, please refer to table 16.

Table 16 – Regional aircraft movement forecast (Unit: times/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2014	2,400	2,400	2,400
2015	2,900	3,100	3,400
2016	3,600	4,100	4,700
2017	4,400	5,500	6,700
2018	5,400	7,200	9,400
2019	6,600	9,500	13,200
2020	7,800	12,000	18,000
2024	9,900	17,000	28,300
2034	14,900	31,500	64,200
2044	16,700	38,100	83,800
Annual average growth rate (%)			
2015-2020	21.5	30.6	39.7
2015-2024	15.1	21.5	27.9
2015-2034	9.5	13.7	17.8
2015-2044	6.6	9.6	12.5

4. Total aircraft movement forecast

According to the forecast, as for the base scenario, the total aircraft movement of Meilan International Airport will reach 450,000 in 2044 which is equivalent to an annual average growth rate of 5.1% in the future 30 years. The forecast results of the underestimate scenario and overestimate scenario are equivalent to an annual average growth rate of 4.0% and 6.2% in the upcoming thirty years respectively. For detail, please refer to table 17.

Table 17 – Total aircraft movement forecast (Unit: times/year)

Year	Underestimate scenario	Base scenario	Overestimate scenario
2014	102,100	102,100	102,100
2015	113,600	115,800	118,000
2016	126,400	131,500	136,700
2017	140,500	149,200	158,400
2018	155,700	168,900	183,500
2019	172,600	191,500	213,200
2020	191,100	217,100	248,000
2024	224,600	266,000	318,800
2034	300,800	387,000	513,500
2044	335,300	448,000	622,800
Annual average growth rate (%)			
2015-2020	11.0	13.4	15.9
2015-2024	8.2	10.0	12.1
2015-2034	5.6	6.9	8.4
2015-2044	4.0	5.1	6.2

5. Description of results

During the past ten years, Haikou Meilan International Airport has achieved huge growth in traffic. The annual passenger growth from 2005 to 2014 is 7.8%. Under certain momentums arising from new economic normalization, the active development of Hainan International Tourism Island, the huge development of PRC's air transportation industry as well as the growth of international (Entry-Exit) and domestic tourism industry, the growth in traffic is expected to continue. In short term, the overall trend of air transportation remains very optimistic. In long term, continuous economic growth and small-scale decrease in real air fares will continue to support the demand of civil aviation industry. In the overall forecast period (i.e. from 2015 to 2044), as for the base scenario, the annual average passenger growth rate is 5.5%.

In addition, we would like to emphasize that the forecast results in this report are based on historical information as well as certain foreseeable conditions precedent and assumptions. Any forecast relating to airport traffic has its uncertainties. The failure of achieving certain assumptions made in the forecast is unavoidable. Certain unexpected events or situations are possible to occur. Therefore, Chelbi Inc. will not provide guarantees in any form about the chance of occurrence of the forecasts mentioned in this report.

The following factors may lead to the deviation of expected actual throughput:

- Lower than assumed rates of economic growth in China and those countries expected to provide a significant source of inbound international air passengers;
- Shifts in Government policy which directly, or indirectly, suppress the traffic of Meilan International Airport, such as Sea Crossing Rail-Road Bridge of Qiongzhou Straits;
- Adverse impacts for Hainan Meilan International Airport associated with aviation industry consolidation;
- Significant changes in airline costs (e.g. a fuel price shock) which are passed onto customers by way of higher air fares;
- External factors including, but not limited to, natural disasters, political unrest, acts of terrorism and associated security concerns and labour disputes.

This report is provided for the exclusive use of HNA Infrastructure Company Limited. No third-party institution can quote the information in this report without the authorization of HNA Infrastructure or Chelbi Inc.

Vigers Appraisal & Consulting Limited
International Assets Appraisal Consultants

10th Floor, The Grande Building
398 Kwun Tong Road
Kowloon
Hong Kong



7 October 2015

The Directors
HNA Infrastructure Company Limited
Office Building of Meilan Airport
Haikou City
Hainan Province
the PRC

Dear Sirs,

In accordance with the instructions of HNA Infrastructure Company Limited (the "**Company**") for us to value the land of approximately 252.9 hectares to be used for the Company Construction Project under the Investment and Construction Agreement (hereinafter referred to as the "**property interest**") in the People's Republic of China ("**the PRC**"), we confirm that we have carried out inspections, made relevant enquiries and obtained such further information as we consider necessary for the purpose of providing you with our opinion of the market value of such property interest as at 31 July 2015 ("**date of valuation**") for the purpose of incorporation in the circular.

Our valuation is our opinion of the market value of the property interest which we would define market value as intended to mean "the estimated amount for which an asset or liability should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing and where the parties had each acted knowledgeably, prudently and without compulsion".

In valuing the property interest, we have adopted the direct comparison and standard land price approaches by making reference to comparable land transaction evidences as available in the locality and the standard land price in Haikou City.

Our valuation has been made on the assumption that the owner sells the property interest on the open market in its existing state without the benefit of a deferred terms contract, leaseback, joint venture, management agreement or any similar arrangement which would serve to increase the value of the property interest. In addition, no forced sale situation in any manner is assumed in our valuation.

We have not caused title searches to be made for the property interest at the relevant government bureau in the PRC. We have been provided with certain extracts of title documents relating to the property interest. However, we have not inspected the original documents to verify the ownership, encumbrances or the existence of any subsequent amendments which may not appear on the copies handed to us. All documents have been used for reference only.

We have relied to a considerable extent on information provided by the Company and have accepted advice given to us by the Company on such matters as planning approvals or statutory notices, easements, tenure, occupation, lettings, site and floor areas and in the identification of the property and other relevant matter. We have also been advised by the Company that no material facts had been concealed or omitted in the information provided to us. All documents have been used for reference only.

All dimensions, measurements and areas included in the valuation certificate are based on information contained in the documents provided to us by the Company and are approximations only. No on-site measurement has been taken.

We have inspected the exterior and, where possible, the interior of the property. However, we have not carried out a structural survey nor have we inspected woodwork or other parts of the structures which are covered, unexposed or inaccessible and we are therefore unable to report that any such parts of the property are free from defect. No tests were carried out on any of the services.

No allowance has been made in our valuation for any charges, mortgages or amounts owing on the property interest nor for any expenses or taxation which may be incurred in effecting a sale. Unless otherwise stated, it is assumed that the property interest is free from encumbrances, restrictions and outgoings of an onerous nature which could affect its value.

Our valuation is prepared in accordance with the HKIS Valuation Standards (2012 Edition) published by The Hong Kong Institute of Surveyors (HKIS) and the requirements set out in Chapter 5 and Practice Note 12 to the Rules Governing the Listing of Securities issued by The Stock Exchange of Hong Kong Limited.

Unless otherwise stated, all money amounts stated are in Renminbi (RMB).

We enclose herewith a valuation certificate.

Yours faithfully,
For and on behalf of
Vigers Appraisal & Consulting Limited
Raymond Ho Kai Kwong
Registered Professional Surveyor (GP)
MRICS MHKIS MSc (e-com)
China Real Estate Appraiser
Managing Director

Note: Mr. Raymond Ho Kai Kwong, Chartered Surveyor, MRICS MHKIS MSc (e-com), has over twenty seven years' experiences in undertaking valuations of properties in Hong Kong and has over twenty years' experiences in valuations of properties in the PRC.

VALUATION CERTIFICATE

Property interest to be used for the Company Construction Project under the Investment and Construction Agreement

Property	Description and Tenure	Particulars of occupancy	Market Value in existing state as at 31 July 2015
<p>The land located within the Phase II expansion project of Meilan Airport, west of Duokan village in Yanfeng Town, south of Tingzipo Village in Lingshan Town, Meilan District, Haikou City, Hainan Province, the PRC</p>	<p>The property comprises the land of approximately 252.9 hectares to be used for the Company Construction Project under the Investment and Construction Agreement.</p> <p>The Company Construction Project is part of the Phase II expansion project of Meilan Airport. The land consists of the new airport terminal areas, working areas and cargo handling areas of site areas of approximately 113.4 hectares, 125.5 hectares and 14 hectares respectively.</p>	<p>As advised by the Company, the property will be expropriated and used for the purpose of the construction of Phase II expansion project of Meilan Airport.</p>	<p>RMB1,507,300,000 (subject to assumptions made in Note 4)</p>

Notes:

1. Pursuant to the Investment and Construction Agreement, the Company has agreed to provide funds, to construct the Company Construction Project. The Parent Company shall act as the project representative of the Airport Project, responsible for organizing and supervising the implementation of construction plan of the Airport Project and the fund raising for the Parent Company Construction Project until its completion and acceptance.

2. Pursuant to the Investment and Construction Agreement, the Parent Company has agreed to register the ownership of the relevant assets comprising the Company Construction Project, including but not limited to, the land use rights and property ownership of the buildings, under the name of the Company upon the completion and acceptance of the Airport Project, unless otherwise agreed by both the Company and the Parent Company.

3. Pursuant to the Investment and Construction Agreement, the Parent Company has irrevocably agreed, undertaken and confirmed that, before the registration of the ownership of the assets comprising the Company Construction Project under the name of the Company, the Company has the right to occupy, utilize, benefit from and dispose of the assets comprising the Company Construction Project without making any payment to the Parent Company to the extent permitted by the applicable PRC laws.

4. In the course of our valuation, we have made the following assumptions:
 - (a) The Company has obtained the relevant ownership certificates of the property and is entitled to sell, transfer, mortgage, charge, lease, sub-lease or otherwise dispose of the property to any third party (either local or overseas) at a consideration without payment of any additional premium or other onerous payment to the government during the whole of the unexpired term of the land use rights periods;
 - (b) All land acquisition cost and settlement compensation and other costs of ancillary utility services have been fully settled;
 - (c) The land use rights of the property has been granted for a term of 50 years for airport use;
 - (d) The site formation works of the property has been completed;
 - (e) The land has been provided with the basic infrastructures, including roads, electricity, communication, water supply and drainage; and
 - (f) The property is free from any mortgages, orders and other legal encumbrances which may cause adverse effects to the title of the property.
5. The property was inspected by Mr. Li Shu Rui, China Real Estate Appraiser, on 14 August 2015.

1. RESPONSIBILITY STATEMENT

This circular, for which the Directors collectively and individually accept full responsibility, includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors, having made all reasonable enquiries, confirm that to the best of their knowledge and belief the information contained in this circular is accurate and complete in all material respects and not misleading or deceptive, and there are no other matters the omission of which would make any statement herein or this circular misleading.

2. DISCLOSURE OF INTERESTS

Director's interest and short position

As at the Latest Practicable Date, none of the Directors, supervisors or chief executive of the Company had any interest or short positions in the shares, underlying shares or debentures of the Company and any of its associated corporations (within the meaning of Part XV of the SFO) which would be required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they were taken or deemed to have under such provisions of the SFO) or pursuant to the Model Code for Securities Transactions by Directors of Listed Companies as set out in appendix 10 to the Listing Rules; or would be required to be recorded in the register to be kept by the Company pursuant to section 352 of the SFO.

As at the Latest Practicable Date, none of the Directors and their respective associates (as defined in Listing Rules) has any interest in a business, which competes or may compete with the businesses of the Company or any other conflict of interests which any such person has or may have with the Company.

As at the Latest Practicable Date, none of the Directors has any material interest, directly or indirectly, in any asset which, since 31 December 2014, being the date to which the latest audited consolidated financial statements of the Group have been made up, had been acquired or disposed of by or leased to any member of the Group or was proposed to be acquired or disposed of by or leased to any member of the Group.

As at the Latest Practicable Date, none of the Directors has or is proposed to have a service contract with the Company or any of its subsidiaries which does not expire or which is not determinable by the Group within one (1) year without the payment of compensation other than statutory compensation.

No contracts of significance to which the Company, any of its holding companies, fellow subsidiaries or subsidiaries was a party and in which a Director had a material interest and which is significant to the Group's business, whether directly or indirectly, subsisted at the date of this circular.

Save as disclosed above, as at the Latest Practicable Date, no director or proposed director is a director or employee of a company which has an interest or short position in the shares and underlying shares of the Company which would fall to be disclosed to the issuer under the provisions of Divisions 2 and 3 of Part XV of the SFO.

3. SUBSTANTIAL SHAREHOLDERS' INTERESTS IN SHARES

As at the Latest Practicable Date, so far as is known to the Directors, supervisors or chief executive of the Company, the following persons (other than a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital; or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

Domestic shares

Name of Shareholders	Identity	Type of shares	Number of ordinary shares	Percentage of domestic shares issued	Percentage of total issued share capital
Haikou Meilan International Airport Company Limited (<i>Note 1</i>)	Beneficial owner	Corporate	237,500,000 (L)	96.43%	50.19%

H shares

Name of Shareholders	Type of Interest	Number of ordinary shares	Percentage of H shares issued	Percentage of total issued share capital
Zhang Gaobo (<i>Note 2</i>)	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
Zhang Zhiping (<i>Note 2</i>)	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
Oriental Patron Financial Services Group Limited (<i>Note 2</i>)	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%

Name of Shareholders	Type of Interest	Number of ordinary shares	Percentage of H shares issued	Percentage of total issued share capital
Oriental Patron Financial Group Limited (<i>Note 2</i>)	Interest of controlled corporations	94,343,000 (L)	41.58%	19.94%
Oriental Patron Resources Investment Limited (<i>Note 2</i>)	Beneficial owner	94,343,000 (L)	41.58%	19.94%
UBS AG (<i>Note 3</i>)	Beneficial owner, security interests in shares and interests of controlled corporations	27,174,400 (L)	11.98%	5.74%
	Beneficial owner	15,000 (S)	0.01%	0.00%
UBS Group AG (<i>Note 4</i>)	Security interest in shares and interest of controlled corporations	27,174,400 (L)	11.98%	5.74%
	Interest of controlled corporations	15,000 (S)	0.01%	0.00%
ARC Capital Holdings Limited (<i>Note 5</i>)	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%
ARC Capital Partners Limited (<i>Note 5</i>)	Investment manager	32,788,500 (L)	14.45%	6.93%
Pacific Alliance Asia Opportunity Fund L.P. (<i>Note 5</i>)	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%
Pacific Alliance Equity Partners Limited (<i>Note 5</i>)	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%

Name of Shareholders	Type of Interest	Number of ordinary shares	Percentage of H shares issued	Percentage of total issued share capital
Pacific Alliance Group Asset Management Limited (<i>Note 5</i>)	Investment manager	32,788,500 (L)	14.45%	6.93%
PAG Holdings Limited (<i>Note 5</i>)	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%
Pacific Alliance Group Limited (<i>Note 5</i>)	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%
Pacific Alliance Investment Management Limited (<i>Note 5</i>)	Interest of controlled corporations	32,788,500 (L)	14.45%	6.93%
Walden Ventures Limited (<i>Note 5</i>)	Beneficial owner	32,788,500 (L)	14.45%	6.93%
Deutsche Bank Aktiengesellschaft (<i>Note 6</i>)	Beneficial owner and security interest in shares	18,164,508(L)	8.01%	3.84%
Greenwoods Asset Management Limited (<i>Note 7</i>)	Investment manager	13,844,000 (L)	6.10%	2.93%
JPMorgan Chase & Co. (<i>Note 8</i>)	Beneficial owner and custodian corporation/approved lending agent	13,607,488 (L)	5.99%	2.88%
Svenska Handelsbanken AB Publ. (<i>Note 9</i>)	Investment manager	11,387,747 (L)	5.02%	2.41%

Notes:

1. Haikou Meilan International Airport Company Limited is a company established in the PRC and is the controlling shareholder of the Company.
2. Zhang Gaobo and Zhang Zhiping held 49% and 51% interest in Oriental Patron Financial Group Limited, respectively. Oriental Patron Financial Group Limited held 95% interest in Oriental Patron Financial Services Group Limited. Oriental Patron Resources Investment Limited was wholly-owned by Oriental Patron Financial Services Group Limited.

3. Among the 27,174,400 shares in the Company, UBS AG was deemed to hold 8,896,000 shares through its security interest in those shares and held 15,000 shares as beneficial owner. UBS Fund Services (Luxembourg) S.A., UBS Global Asset Management (Singapore) Ltd and UBS Global Asset Management (Hong Kong) Limited were all wholly-owned by UBS AG, and were beneficially holding 14,194,100 shares, 2,164,300 shares and 1,905,000 shares in the Company, respectively.
4. UBS Group AG held 98.02% equity interest in UBS AG. For further details, please refer to Note 3 above.
5. PAG Holdings Limited held 99.17% interest in Pacific Alliance Group Limited, which in turn held 90% interest in Pacific Alliance Investment Management Limited. Pacific Alliance Investment Management Limited held 52.53% interest in Pacific Alliance Equity Partners Limited. Pacific Alliance Equity Partners Limited held 100% interest in ARC Capital Partners Limited. ARC Capital Partners Limited was deemed to be interested in 32,788,500 shares in its capacity as investment manager. ARC Capital Holdings Limited is a corporation controlled by ARC Capital Partners Limited for the purpose of Part XV of the SFO. ARC Capital Holdings Limited was holding 46.67% interest in Walden Ventures Limited which in turn held 32,788,500 H shares of the Company in its capacity as a beneficial owner. Pacific Alliance Investment Management Limited held 100% interest in Pacific Alliance Group Asset Management Limited. Pacific Alliance Group Asset Management Limited was deemed to be interested in 32,788,500 shares in its capacity as investment manager. Pacific Alliance Asia Opportunity Fund L.P. is a corporation controlled by Pacific Alliance Group Asset Management Limited for the purpose of Part XV of the SFO. Pacific Alliance Asia Opportunity Fund L.P. held 36.67% interest in Walden Ventures Limited which was in turn held 32,788,500 H shares of the Company.
6. Among the 15,934,508 shares in the Company, Deutsche Bank Aktiengesellschaft was deemed to hold 15,931,000 shares as person having a security interest in shares and held 3,508 shares as beneficial owner.
7. Greenwoods Asset Management Limited was wholly owned by Greenwoods Asset Management Holdings Limited, which in turn was held 81% by Jiang Jinzhi. Greenwoods Asset Management Limited holds 13,844,000 in the capacity of investment manager.
8. Among the 13,607,488 shares in the Company, JPMorgan Chase & Co. was deemed to hold 12,963,588 shares as custodian corporation/approved lending agent and held 643,900 shares as beneficial owner.
9. Svenska Handelsbanken AB Publ. held 11,387,747 shares in the Company by virtue of its capacity as investment manager.
10. (L) and (S) represent long position and short position respectively.

Save as disclosed above, as at the Latest Practicable Date, so far as is known to the Directors, supervisors or chief executives of the Company, no other person (not being a Director, supervisor or chief executive of the Company) had, or were deemed or taken to have interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO; or, who were, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of any other member of the Group or had any option in respect of such capital; or would be required to be recorded in the register to be kept by the Company under section 336 of the SFO.

4. MATERIAL ADVERSE CHANGES

The Directors are not aware of any material adverse change in the financial position or trading position of the Group since 31 December 2014, the date to which the latest audited financial statements of the Group were made up.

5. LITIGATION

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance known to the Directors to be pending or threatened by or against the Company or any of its subsidiaries.

6. EXPERTS AND CONSENT

The following are the qualifications of the experts who have given opinion or advice, which are contained in this circular:

Name	Qualifications
First Shanghai	A licensed corporation to carry out type 6 (advising on corporate finance) regulated activity under the SFO
PricewaterhouseCoopers Zhong Tian LLP ("PwC")	Certified Public Accountant
Chelbi Engineering Consultants, Inc. ("Chelbi")	Independent traffic study report consultant
Vigers Appraisal & Consulting Limited ("Vigers")	Professional surveyors and valuers

Each of First Shanghai, PwC, Chelbi and Vigers has given and has not withdrawn its written consent to the issue of this circular with the inclusion of its letter/report and the reference to its name in the form and context in which it appears.

As at the Latest Practicable Date, each of First Shanghai, PwC, Chelbi and Vigers is not beneficially interested in the share capital of any member of the Group nor does it has any right, whether legally enforceable or not, to subscribe for or to nominate persons to subscribe for securities in any member of the Group nor does it has any interest, either direct or indirect, in any assets which have been, since the date to which the latest published audited financial statements of the Company were made up acquired or disposed of by or leased to any member of the Group or are proposed to be acquired or disposed of by or leased to any member of the Group.

7. MANAGEMENT DISCUSSION AND ANALYSIS

The following information is the management discussion and analysis of the Group for the three years ended 31 December 2012, 2013 and 2014, and the six months ended 30 June 2015:

FOR THE YEAR ENDED 31 DECEMBER 2012

Cash Flow

In 2012, the Group recorded a net cash inflow from operating activities of RMB447,737,570, representing an increase of 45.42% as compared with 2011, which was mainly due to the increase in operating income of our Group for the year of 2012.

In 2012, the Group's net cash outflow from investment activities was RMB232,965,098, which was mainly due to the partial payment for the investment and construction fee of the terminal expansion project of the Parent Company.

In 2012, the Group's net cash inflow from financing activities was RMB625,854,950, which was mainly attributable to the issue of corporate bonds of RMB800 million by the Company during the year of 2012.

Capital Structure

The major objective of the Group's capital management is to ensure the ability of ongoing operations and maintain a healthy capital ratio in order to support its business and maximise shareholders' interests. The Group continued to emphasize the appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2012, the debts of the Group were mainly bank loans and corporate bonds (hereinafter the "total borrowings"), amounting to approximately RMB1,189,199,422. Cash and cash equivalents was approximately RMB1,207,561,423. The gearing ratio of the Group was 48.75% as at 31 December 2012 (31 December 2011: 20.8%) (total borrowings/total equity).

The Group maintained a balanced portfolio of loans at fixed interest rates and variable rates to manage interest expenses. As at 31 December 2012, 66.70% of the Group's total borrowings were subject to fixed interest rates, while the remaining 33.30% were subject to floating interest rates.

The Group aimed to keep the balance between the continuity and flexibility of funds by capitalizing on its total borrowings. As at 31 December 2012, 9.68% of the Group's bank loans will become due within one year, and the corporate bonds will become due in 2019.

As at 31 December 2012, the Group's total borrowings were denominated in Renminbi and US dollars, among which borrowings in US dollars represented approximately 33.3% of the total borrowings, while cash and cash equivalents mainly denominated in Renminbi, and in a small amount of US dollars, represented approximately 0.2% of the total amount.

Significant Investment Held and Their Performances

As at 31 December 2012, the Company held 24.5% equity interests in HNA Airport Holding.

On 12 December 2012, the Company and the Parent Company entered into a termination agreement to terminate the acquisition agreement, which was executed on 26 August 2011, and entered into an investment and construction agreement. Pursuant to the investment and construction agreement, the Parent Company shall continue to complete the construction of the terminal expansion project according to the original schedule previously agreed by the Company and the Parent Company, unless the schedule of the terminal expansion project is adjusted due to the reasons beyond the control of the Company and the Parent Company. As at 31 December 2012, the Company has paid RMB439,361,200 related to the investment and construction agreement to the Parent Company (31 December 2011: RMB219,361,200).

Employees and Emolument Policies

For the year ended 31 December 2012, the Group had a total of 563 employees, representing an increase of 98 employees over the previous year. The increase was mainly attributable to the merger of departments of the Group in order to optimize the operation and the recruitment of production support staff for the Company in order to fulfill the support requirement. With the manpower structure remaining unchanged, the Group reorganized various departments to enhance the efficiency of human resources allocation. The Group provided sufficient technical training for its staff based on the requirements of their positions to upgrade the talent of the staff. A total of 194 courses under the training schemes were completed with the participation of 4,904 staff (person time). Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and related packages on a regular basis. Performance-based bonuses and commissions may be awarded to employees.

Details of Charges on the Assets of the Group

The Group obtained a long-term borrowing of USD72,500,000 from China Development Bank. Such borrowing was pledged by 24.5% equity interests in Hainan Airlines Airport Holding Group Company Limited (“HNA Airport”) held by the Group. As at 31 December 2012, the balance of such outstanding borrowing was USD62,993,475 (approximately equivalent to RMB395,945,487).

In addition, a long-term borrowing of RMB128,000,000 from China Development Bank by the Group was pledged by the operating income. As at 31 December 2012, the balance of such outstanding borrowing was RMB2,000,000.

Gearing Ratio

As at 31 December 2012, the current assets, total assets, current liabilities and total liabilities of the Group amounted to RMB1,315,269,732, RMB3,867,245,352, RMB343,219,015 and RMB1,428,049,437 respectively. The asset-liability ratio (total liabilities/total assets) of the Group was 36.93%, representing an increase of 14.54% over the previous year. This was mainly attributable to the issue of corporate bonds of RMB800 million by the Company in 2012, resulting in the increase of liabilities.

Exposure to Foreign Exchange Risks

The Group's businesses are principally denominated in RMB, except that part of the aeronautical revenues, purchase of certain equipment and consultation fee are denominated in US dollars or HK dollars. The dividends payable to holders of H shares are denominated in RMB and paid in HK dollars. According to the arrangement for the acquisition of 24.5% equity interest in HNA Airport, the Group is obliged to repay the principal and interest of the loan of USD62,993,475 provided by China Development Bank in connection with the equity acquisition. Consequently, the fluctuation of the exchange rate of RMB against US dollars will affect the Group's financial results. The Group has not entered into any forward rate contract to hedge its exposure to foreign exchange risk.

Contingent Liabilities

As at 31 December 2012, neither the Group nor the Company had any significant contingent liabilities.

FOR THE YEAR ENDED 31 DECEMBER 2013

Cash Flow

In 2013, the Group's net cash inflow from operating activities was RMB504,966,557, representing an increase of 12.78% over last year. The increase was mainly due to the increase of the operating revenue of the Group for the year.

In 2013, the Group's net cash outflow from investing activities was RMB39,326,422, which was mainly attributable to the acquisition of equipment, facilities and other fixed assets as required for operation for the year.

In 2013, the Group's net cash inflow from financing activities was RMB1,325,121,558, which was mainly due to the syndicated loan of US\$250,000,000 (equivalent to RMB1,524,225,000) raised by the Group during the year.

Capital Structure

The major objective of the Group's capital management is to ensure the ability of ongoing operations and maintain a healthy capital ratio in order to support its business and maximize shareholders' interests. The Group continued to emphasize the appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2013, the debts of the Group were mainly

bank loans, corporate bonds long-term payables (hereinafter the “**total borrowings**”), amounting to approximately RMB2,706,980,972. Cash and cash equivalents was approximately RMB2,998,410,937. The gearing ratio of the Group was 101.41% as at 31 December 2013 (31 December 2012: 48.75%) (total borrowings/total equity).

The Group maintained a balanced portfolio of loans at fixed interest rates and variable rates to manage interest expenses. As at 31 December 2013, 33.56% of the Group’s total borrowings were subject to fixed interest rates, while the remaining 66.44% were subject to floating interest rates.

The Group aimed to keep the balance between the continuity and flexibility of funds by capitalizing on its total borrowings. As at 31 December 2013, 4.24% of the Group’s bank loans will become due within one year, and the corporate bonds will become due in 2019.

As at 31 December 2013, the Group’s total borrowings were denominated in Renminbi and US dollars, among which borrowings in US dollars represented approximately 66.44% of the total borrowings, while cash and cash equivalents mainly denominated in Renminbi and US dollars, among which USD represented approximately 50.91% of the total amount.

Significant Investment Held and Their Performances

As at 31 December 2013, the Company held 24.5% equity interest in HNA Airport Holding.

As at 31 December 2013, payable to the Parent Company under the investment and construction agreement entered into between the Company and the Parent Company on 12 December 2012 was RMB587,318,800 (31 December 2012: RMB587,318,800).

Employees and Emolument Policies

As at 31 December 2013, the Group had a total of 709 employees, representing an increase of 146 employees over the last year, it is within the scope of normal employment. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and related packages on a regular basis. Performance-based bonuses and commissions may be awarded to employees. The Group determined its training schemes for the year based on the requirement of the positions of its employees, in order to provide technical training for an upgrade the talent of its staffs. A total of 142 courses under the training scheme were completed, and 3,621 staffs participated in.

Details of Charges on the Assets of the Group

The Group obtained a long-term borrowing of US\$72,500,000 from China Development Bank. Such borrowing was secured by 24.5% equity interest in HNA Airport Holdings held by the Group. As of 31 December 2013, the outstanding balance of the borrowing was US\$44,993,475 (equivalent to RMB274,320,718).

The Group obtained a long-term borrowing of US\$250,000,000 from Taiwan syndication secured by the 51% interest in Hainan Meilan International Airport Cargo Co., Ltd. held by the Group and certain land use rights of the Group with book value amounting to RMB8,965,065. As of 31 December 2013, balance of the borrowing was US\$250,000,000 (equivalent to RMB1,524,225,000). Please refer to the Company's announcement on 4 December 2013 for further details of the loans.

Gearing Ratio

As of 31 December 2013, current assets of the Group were RMB3,091,910,536, total assets were RMB5,667,228,837, current liabilities were approximately RMB410,894,593 and total liabilities were RMB2,997,885,724. The gearing ratio (total liabilities/total assets) of the Group was 52.90%, representing an increase of 15.97% over last year which is attributable to the new syndicated loan of US\$250,000,000 (equivalent to RMB1,524,225,000) for the year.

Exposure to Foreign Exchange Risks

The businesses of the Group are principally conducted in RMB, except that certain aeronautical revenue, purchase of equipment and consulting service fee are denominated in US\$ or HK\$. The dividends to H-share holders are declared in RMB but paid in HK\$. According to the overall arrangement of acquisition of the 24.5% equity interests in HNA Airport Holdings, the Group has raised a US\$ denominated loan from China Development Bank to finance the said acquisition, the balance of the loan amounted to US\$44,993,475 as at 31 December 2013; the Group has also raised a US\$ denominated syndicated loan of US\$250,000,000 from Taiwan investors to finance the construction of a complex building adjacent to Meilan Airport; the principal and interests of these two loans should be settled in US\$. Thus, the exchange fluctuation of RMB against US\$ will affect the financial performance of the Group. The Group has not entered into any forward contract to hedge its exposure of foreign exchange risk.

Contingent Liabilities

As at 31 December 2013, neither the Group nor the Company had any significant contingent liability.

FOR THE YEAR ENDED 31 DECEMBER 2014

Cash Flow

In 2014, the Group's net cash inflow from operating activities was RMB419,871,850, representing a decrease of 16.85% over last year. The decrease was mainly due to the increase in labour costs and taxation.

In 2014, the Group's net cash outflow from investing activities was RMB1,118,469,220, which was mainly attributable to payments for the terminal expansion construction, terminal complex project construction and the entrusted loan.

In 2014, the Group's net cash outflow from financing activities was RMB413,854,320, which represented mainly the repayment of borrowings, payment of interests on borrowings and dividends.

Capital Structure

The major objective of the Group's capital management is to ensure the ability of ongoing operations and maintain a healthy capital ratio in order to support its business and maximize shareholders' interests. The Group continued to emphasize the appropriate mix of equity and debt to ensure an efficient capital structure to reduce capital cost. As at 31 December 2014, the debts of the Group were mainly bank loans, corporate bonds and long-term payables (hereinafter the "total borrowings"), amounting to approximately RMB2,550,552,096. Cash and cash equivalents was approximately RMB1,884,557,387. The gearing ratio of the Group was 88.21% as at 31 December 2014 (31 December 2013:101.41%) (total borrowings/total equity).

The Group maintained a balanced portfolio of loans at fixed interest rates and variable rates to manage interest expenses. As at 31 December 2014, 34.84% of the Group's total borrowings were subject to fixed interest rates, while the remaining 65.16% were subject to floating interest rates.

The Group aimed to keep the balance between the continuity and flexibility of funds by capitalizing on its total borrowings. As at 31 December 2014, 17.43% of the Group's bank loans will become due within one year, and the corporate bonds will become due in 2019.

As at 31 December 2014, the Group's total borrowings were denominated in Renminbi and US dollars, among which borrowings in US dollars represented approximately 65.16% of the total borrowings, while cash and cash equivalents mainly denominated in Renminbi and US dollars, among which USD represented approximately 35.07% of the total amount.

Significant Investment Held and Their Performances

As at 31 December 2014, the Company held 24.5% equity interest in HNA Airport Holding.

As at 31 December 2014, payable to the Parent Company under the investment and construction agreement entered into between the Company and the Parent Company on 12 December 2012 was RMB383,318,800 (31 December 2013: RMB587,318,800).

Employees and Emolument Policies

As at 31 December 2014, the Group had a total of 728 employees, representing an increase of 19 employees over the last year, it is within the scope of normal employment. Employees are remunerated based on their performance, experience and prevailing industry practices. The Group will review the remuneration policy and related packages on a regular basis. Performance-based bonuses and

commissions may be awarded to employees. The Group provided adequate trainings based on the requirement of its employees, in order to upgrade the talent of its staffs. A total of 163 courses under the training scheme were completed, and 6,794 staff participated in.

Details of Charges on the Assets of the Group

The long-term borrowing of US\$72,500,000 from China Development Bank was secured by 24.5% equity interest in HNA Airport Holdings held by the Group. As of 31 December 2014, the outstanding balance of the borrowing was US\$26,993,475 (equivalent to RMB165,173,074).

The Group's long-term borrowing of US\$250,000,000 from Taiwan syndication was secured by the 51% equity interest in Hainan Meilan International Airport Cargo Co., Ltd. held by the Group and certain land use rights of the Group with book value amounting to RMB8,717,183. As of 31 December 2014, outstanding balance of the borrowing was US\$250,000,000 (equivalent to RMB1,529,750,000). Please refer to the Company's announcement published on 4 December 2013 for further details of the borrowings.

Certain land use rights for the construction of the West Gallery and the international terminal have been pledged to secure a longterm borrowing of RMB291,000,000 granted to the Group and Haikou Meilan International Airport Company Limited (being the joint borrowers) by China Development Bank.

Gearing Ratio

As of 31 December 2014, current assets of the Group were RMB2,014,675,870, total assets were RMB5,721,747,176, current liabilities were RMB703,159,240 and total liabilities were RMB2,830,393,007. The gearing ratio (total liabilities/total assets) of the Group was 49.47%, representing a decrease of 3.43% over last year, which was attributable to the decrease in borrowings.

Exposure to Foreign Exchange Risks

The businesses of the Group are principally conducted in RMB, except certain aviation revenue, purchase of equipment and consulting service fee which are denominated in US\$ or HK\$. The dividends to H-share holders are declared in RMB but paid in HK\$. According to the overall arrangement in relation to the acquisition of 24.5% equity interests in HNA Airport Holdings, the Group has raised a US\$ denominated borrowing from China Development Bank to finance the said acquisition, the balance of the borrowing amounted to US\$26,993,475 as at 31 December 2014; the Group has also raised a US\$ denominated syndicated borrowing of US\$250,000,000 from Taiwan investors to finance the construction of the terminal complex project of Meilan Airport; the principals and interests of these two borrowings should be settled in US\$. Thus, the exchange fluctuation of RMB against US\$ will affect the financial performance of the Group. The Group has not entered into any forward contract to hedge its exposure to foreign exchange risk.

Contingent Liabilities

As at 31 December 2014, neither the Group nor the Company had any significant contingent liability.

FOR THE SIX MONTHS ENDED 30 JUNE 2015

Cash Flow

For the six months ended 30 June 2015, the Group's net cash inflow from operating activities was RMB215,547,782, representing an increase of 53.59% over last year. The increase was mainly due to the increase of the operating revenue of the Group for the period.

For the six months ended 30 June 2015, the Group's net cash outflow from investing activities was RMB109,442,442, which was mainly used for acquisition of equipment, facilities and other fixed assets as required for operation for the period.

For the six months ended 30 June 2015, the Group's net cash outflow from financing activities was RMB361,764,795, which was mainly due to repayment of borrowing of US\$34,000,000 (equivalent to RMB209,946,000) by the Group during the period.

Capital Structure

As at 30 June 2015, the total issued share capital of the Company was RMB473,213,000. Currently, the Group has borrowings from China Development Bank of US\$17,993,475 with an interest rate of Libor ("London InterBank Offered Rate") plus 3.4% and the borrowings from Taiwan syndication of US\$225,000,000 with an interest rate of Libor plus 3.3%. The Group also conducted public issue of registered, book-entry company bonds of RMB800,000,000 on the Shanghai Stock Exchange with a fixed interest rate of 7.8% per annum. In addition, a financial leasing facilities of RMB83,664,492 was granted by Jiangsu Financial Leasing Co., Ltd. (江蘇融資租賃有限公司).

Significant Investment Held and Their Performances

As at 30 June 2015, the Company held 24.5% equity interests in HNA Airport Holdings. HNA Airport Holdings is principally engaged in the investment, holding, improvement and construction of airports. It has subsidiaries namely Sanya Phoenix International Airport Co., Ltd. (三亞鳳凰國際機場有限責任公司), Sanya Phoenix Airport Inn Management Co., Ltd. (三亞鳳凰機場快捷酒店管理有限責任公司), Sanya Phoenix International Airport Cargo Co., Ltd. (三亞鳳凰國際機場貨運有限責任公司), Manzhouli Xijiao Airport Co., Ltd. (滿洲里西郊機場有限責任公司), Manzhouli Xijiao Airport Travel Agency Co., Ltd. (滿洲里西郊機場旅行社有限責任公司), Yichang Sanxia Airport Co., Ltd. (宜昌三峽機場有限責任公司) and Yichang Lucky Travel Agency Co., Ltd. (宜昌幸運旅行社有限公司). With the flourishing development of the aviation industry and the tourism, the Company expects HNA Airport Holdings will have a prosperous future and will continue to bring considerable investment returns to the Company.

In the first half of 2015, the Company recorded an investment income of RMB10,802,395 based on the net profit attributable to parent company of HNA Airport Holdings.

Material Acquisitions and Disposal

As at 30 June 2015, the Company did not carry out any new and major acquisitions and disposals.

Employees and Emolument Policies

As at 30 June 2015, the Group had a total of 734 employees, representing an increase of 6 employees as compared to the beginning of this year. The increase was mainly due to normal staff recruitment. Employees of the Group are remunerated based on their performance, experience and prevailing industry practices. The Group reviews its remuneration policy and packages on a regular basis. Bonuses and commissions may be awarded to employees as incentives based on performance assessment.

Details of Charges on the Assets of the Group

The long-term borrowing of US\$72,500,000 from China Development Bank was secured by 24.5% equity interests in HNA Airport Holdings held by the Group. As at 30 June 2015, the outstanding balance of the borrowing was US\$17,993,475 (equivalent to RMB110,004,909).

The Group's long-term borrowing of US\$250,000,000 from Taiwan syndication was secured by the 51% equity interests in Hainan Meilan International Airport Cargo Co., Ltd. held by the Group and certain land use rights of the Group with book value amounting to RMB8,593,242. As at 30 June 2015, outstanding balance of the borrowing was US\$225,000,000 (equivalent to RMB1,375,560,000).

Certain land use rights for the construction of the West Gallery and the international terminal have been pledged to secure a long-term borrowing granted to the Parent Company (of which the Company is the joint borrowers) by China Development Bank. As at 30 June 2015, the balance of the long-term borrowing was RMB590,000,000.

Gearing Ratio

As at 30 June 2015, the Group had total current assets of RMB1,843,816,456, total assets of RMB5,705,229,324, total current liabilities of RMB784,430,439 and total liabilities of RMB2,620,312,590. As at 30 June 2015, the Group's gearing ratio (total liabilities/total assets) was 45.93%, representing a decrease of 3.54% as compared to that as at 31 December 2014. The decrease was caused by the repayment of borrowings of US\$9,000,000 to China Development Bank, the repayment of the borrowing of US\$25,000,000 to the Taiwan syndication and the payment of interests accrued in 2014.

Exposure to Foreign Exchange Risks

The businesses of the Group are principally conducted in RMB, except certain revenue from aviation business, purchase of equipment and consultation fee which are denominated in US\$ or HK\$. The dividends to H-share holders are declared in RMB but paid in HK\$. According to the overall arrangement in relation to the acquisition of 24.5% equity interests in HNA Airport Holdings, the balance of the US\$ denominated borrowing from China Development Bank in relation to the said acquisition was US\$17,993,475, while the balance of the US\$ denominated syndicated borrowing from Taiwan syndication to finance the construction of the terminal complex project was US\$225,000,000. The principals and interests of these two borrowings should be borne by the Group. Therefore, any fluctuation in the exchange rate of RMB against US\$ will affect the financial performance of the Group. The Group has not entered into any forward contract to hedge its exposure to foreign exchange risk.

Contingent Liabilities

As at 30 June 2015, the Group did not have any contingent liabilities.

Significant Investment Held and Their Performances

As at 30 June 2015, the Company held 24.5% equity interests in HNA Airport Holdings. HNA Airport Holdings is principally engaged in the investment, holding, improvement and construction of airports. It has subsidiaries namely Sanya Phoenix International Airport Co., Ltd. (三亞鳳凰國際機場有限責任公司), Sanya Phoenix Airport Inn Management Co., Ltd. (三亞鳳凰機場快捷酒店管理有限公司), Sanya Phoenix International Airport Cargo Co., Ltd. (三亞鳳凰國際機場貨運有限公司), Manzhouli Xijiao Airport Co., Ltd. (滿洲里西郊機場有限責任公司), Manzhouli Xijiao Airport Travel Agency Co., Ltd. (滿洲里西郊機場旅行社有限責任公司), Yichang Sanxia Airport Co., Ltd. (宜昌三峽機場有限責任公司) and Yichang Lucky Travel Agency Co., Ltd. (宜昌幸運旅行社有限公司). With the flourishing development of the aviation industry and the tourism, the Company expects HNA Airport Holdings will have a prosperous future and will continue to bring considerable investment returns to the Company.

In the first half of 2015, the Company recorded an investment income of RMB10,802,395 based on the net profit attributable to parent company of HNA Airport Holdings.

Material Acquisitions and Disposal

As at 30 June 2015, the Company did not carry out any new and major acquisitions and disposals.

8. MISCELLANEOUS

- (a) The secretary of the Company is Mr. Xing Zhoujin. Mr. Xing Zhoujin, aged 49, an economist, has engaged in corporate governance of listed companies for years and participated in relevant trainings provided by securities regulatory authorities at home and abroad.
- (b) The registered address of the Company is at Office Building of Meilan Airport, Haikou City, Hainan Province, the PRC.
- (c) The Hong Kong Branch Share Registrar and Transfer Office of the Company is Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong.
- (d) The English text of this circular and form of proxy shall prevail over the Chinese text.

9. MATERIAL CONTRACT

The following contracts (not being contracts entered into in the ordinary course of business) were entered into by members of the Group within two years immediately preceding the date of this circular and up to the Latest Practicable Date:

- (a) the Investment and Construction Agreement;
- (b) On 2 July 2014, the Company and the Parent Company entered into a subscription agreement pursuant to which the Parent Company agreed to subscribe for 66,615,016 new domestic shares in the Company in cash at the aggregate subscription price of RMB379,039,440;
- (c) On 2 July 2014, the Company entered into a sales and purchase agreement with Xinhua Lianhang Airport Industry Investment Development Co., Ltd.* (新華聯航臨空產業投資開發有限公司) (“**Xinhua Lianhang**”), HNA International Tourism Island Development (Group) Co., Ltd.* (海航國際旅遊島開發建設(集團)有限公司) (“**Haidao Development**”) and Hainan HNA Engineering Construction Co., Ltd.* (海南海航工程建設有限公司) (“**HNA Engineering**”) as the vendors, pursuant to which (i) the Company had conditionally agree to acquire and Xinhua Lianhang had conditionally agreed to sell the sale shares of Wuhan HNA Lanhai Airport Industry Development Co., Ltd.* (武漢海航藍海臨空產業發展有限公司) (“**Wuhan Linkong**”), representing 80% equity interest in Wuhan Linkong at a consideration of RMB379,039,440 and (ii) the Company had conditionally acquire and Haidao Development and HNA Engineering had conditionally agreed to sell the sale shares of Hainan Haidao Commercial Management Co., Ltd.* (海南海島商業管理有限公司) (“**Haidao Commercial**”), representing 100% equity interest in Haidao Commercial at a consideration of RMB1,273,518,200;

- (d) On 2 July 2014, HNA Real Estate Holding (Group) Co., Ltd.* (海航地產控股(集團)有限公司), HNA Properties Management Co., Ltd.* (海航物業管理有限公司), Haikou Xincheng District Development Co., Ltd.* (海口新城區建設開發有限公司), Hainan Haidao Hotel Management Co., Ltd.* (海南海島酒店管理有限公司), Hainan HNA Airport Asset Management Co., Ltd.* (海南海航機場資產管理有限公司) and HNA Industrial Co., Ltd.* (海航實業有限公司) (together, the “**Related Parties**”), Haidao Commercial, HNA Engineering, Haidao Development and the Company entered into a loan assignment agreement in respect of the transfer of the aggregate advances amounted to approximately RMB208,715,485 provided by Haidao Commercial to the Related Parties and the aggregate advances amounted to approximately RMB550,000 provided by Haidao Commercial to HNA Engineering as at 31 March 2014;
- (e) On 18 December 2013, the Company and Yangpu Guoxing Engineering Construction Co., Ltd.* (洋浦國興工程建設有限公司) (“**Yangpu Guoxing**”) entered into a construction service agreement, pursuant to which, Yangpu Guoxing agreed to provide services relating to the construction of the station complex at Meilan Airport at a consideration of RMB57,110,000; and
- (f) On 28 November 2013, the Company and the Parent Company entered into an airport composite services agreement, pursuant to which, the Parent Company agreed to provide or procure any third party if necessary with the Company’s consent to provide to the Company security guard service, cleaning and environment maintenance service, sewage and refuse processing service and etc., and the service fee was determined depending on the type of service to be provided by the Parent Company to the Company and in accordance with normal business practices.

10. DOCUMENTS AVAILABLE FOR INSPECTION

Copies of the following documents will be available for inspection during normal business hours on any weekday (except public holidays) at the office of Units 2606A-2608, 26th Floor, Island Place Tower, 510 King’s Road, North Point, Hong Kong for a period of 14 days from the date of this circular:

- (a) the Articles of Association;
- (b) the Investment and Construction Agreement;
- (c) the letter from the Board, the text of which is set out on pages 4 to 23 of this circular;
- (d) the letter from the Independent Board Committee to the Independent Shareholders;
- (e) the letter from First Shanghai to the Independent Board Committee and the Independent Shareholders;

- (f) the annual reports of the Company for each of the three financial years ended 31 December 2012, 2013 and 2014;
- (g) the report from PwC on unaudited pro forma financial information of the Group, the text of which is set out in Appendix II to this circular;
- (h) the traffic study report from Chelbi, the text of which is set out in Appendix III to this circular;
- (i) the property valuation report of the land from Vigers, the text of which is set out in Appendix IV to this circular;
- (j) the Feasibility Study Report in relation to the construction of the Phase II expansion project of Meilan Airport;
- (k) a copy of each of the material contracts referred to in the paragraph headed "Material Contracts" in this Appendix;
- (l) the written consents referred to in the paragraph headed "Experts and Consent" in this Appendix;
- (m) the service contracts of the Directors; and
- (n) this circular.

NOTICE OF THE EXTRAORDINARY GENERAL MEETING



海航基礎股份有限公司

HNA Infrastructure Company Limited*

(A joint stock company incorporated in the People's Republic of China with limited liability)

(Stock code: 357)

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

NOTICE IS HEREBY GIVEN that an extraordinary general meeting (the “EGM”) of HNA Infrastructure Company Limited (the “Company”) will be held at 10:00 a.m. on 30 October 2015 (Friday) at the meeting room of the Company on 3rd Floor, Office Building of Meilan Airport, Haikou City, Hainan Province, the People’s Republic of China for the purpose of considering and, if thought fit, passing the following resolutions:

BY WAY OF ORDINARY RESOLUTIONS

1. To consider and approve the interim dividend distribution plan of the Company for the first half year of 2015;
2. To consider and approve the investment and construction agreement (the “Investment and Construction Agreement”) dated 21 August 2015 entered into between the Company and Haikou Meilan International Airport Company Limited and the very substantial acquisition and connected transaction (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited) contemplated thereunder; and
3. To consider and approve proposals (if any) put forward at such meeting by any shareholder(s) holding 5 per cent or more of the shares carrying the right to vote at such meeting.

BY WAY OF SPECIAL RESOLUTIONS

4. “THAT the proposal by the board of directors of the Company (the “Board”) to amend the articles of association of the Company in the manner as set out in the circular of the Company to be despatched to the shareholders of the Company subsequently, be and is hereby approved, and the Board be and is hereby authorized to do all such things as necessary in respect of the amendments pursuant to the requirements (if any) under domestic or overseas laws or under the rules of any stock exchange on which any securities of the Company are listed”; and

* For identification purposes only

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

5. To consider and approve the proposals (if any) put forward at such meeting by any shareholder(s) holding 5 per cent or more of the shares carrying right to vote at such meeting.

By the order of the Board
HNA Infrastructure Company Limited*
Wang Zhen
Chairman

Hainan, the PRC
21 August 2015

As at the date of this notice, the Board comprises of (i) four executive directors, namely Mr. Wang Zhen, Mr. Yang Xiaobin, Mr. Gao Jian and Mr. Zhang Peihua; (ii) three non-executive directors, namely Mr. Hu Wentai, Mr. Chan Nap Kee, Joseph and Mr. Yan Xiang; and (iii) four independent non-executive directors, namely Mr. Deng Tianlin, Mr. Fung Ching, Simon, Mr. George F. Meng and Mr. He Linji.

Notes:

- (A) A circular containing, among other things, details relating to the Investment and Construction Agreement and the transaction contemplated thereunder, and the proposed amendments to the articles of association, will be despatched to the shareholders of the Company as soon as possible.
- (B) The Company's register of members will be closed from Wednesday, 30 September 2015 to Friday, 30 October 2015 (both days inclusive), during which no transfer of shares will be registered. In order to qualify for attending and voting at the EGM, shareholders must deliver their transfer documents, accompanied by the relevant share certificates and forms of transfer, to the Company's share registrar and transfer office, Computershare Hong Kong Investor Services Limited, located at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong no later than 4:30 p.m. on Tuesday, 29 September 2015.
- (C) Holders of the overseas listed foreign shares (in the form of H shares) of the Company whose names appear on the Company's register of members maintained by Computershare Hong Kong Investor Services Limited at the close of business on Tuesday, 29 September 2015 are entitled to attend and vote at the EGM after complying with the necessary registration procedures.
- (D) Holders of H shares and domestic shares of the Company, who intend to attend the EGM, must complete and return the reply slips for attending the EGM to the Secretary Office to the Board not later than 20 days before the date of the EGM, i.e. no later than Saturday, 10 October 2015. Holders of H shares and domestic shares of the Company can deliver the reply slips by hand, by post or by facsimile.

Details of the Secretary Office to the Board are as follows:

Office Building of Meilan Airport
Haikou City
Hainan Province
PRC
Tel: (86-898) 6576 2009
Fax: (86-898) 6576 2010

* For identification purposes only

NOTICE OF THE EXTRAORDINARY GENERAL MEETING

- (E) Each holder of H shares who has the right to attend and vote at the EGM (or any adjournment thereof) is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the EGM. A proxy of a shareholder who has appointed more than one proxy may only vote on a poll.
- (F) The instrument appointing a proxy must be in writing under the hand of the appointor or his attorney duly authorized in writing. If that instrument is signed by an attorney of the appointor, the power of attorney authorizing that attorney to sign, or other documents of authorization, must be notarially certified. The instrument appointing a proxy of any holder of H shares (being a body corporate) must be affixed with the corporate seal of such holder of H shares or duly signed by the chairman of its Board or by its authorized attorney. To be valid, the form of proxy, and if the form of proxy is signed by a person under a power of attorney or other authority on behalf of the appointor, a notarially certified copy of that power of attorney or other authority, must be delivered to the Company's H shares share registrar, Computershare Hong Kong Investor Services Limited at Rooms 1712-1716, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.
- (G) Each holder of domestic shares of the Company is entitled to appoint in writing one or more proxies, whether a shareholder of the Company or not, to attend and vote on his behalf at the EGM. Notes (E) and (F) also apply to holders of domestic shares of the Company, except that the proxy form or other documents of authority must be delivered to secretary office to the Board, the address of which is set out in Note (D) above, not less than 24 hours before the time for holding the EGM or any adjournment thereof in order for such documents to be valid.
- (H) If a proxy attends the EGM on behalf of a shareholder, he should produce his ID card and the instrument signed by the proxy or his authorized representative, which specifies the date of its issuance. If the legal representative of the holder of legal person share(s) attends the EGM, such legal representative should produce his ID card and valid documents evidencing his capacity as such legal representative. If a holder of legal person share(s) appoints a representative of a company other than its legal representative to attend the EGM, such representative should produce his ID card and an authorization instrument affixed with the seal of the holder of the legal person shares and duly signed by its legal representative.
- (I) The EGM is expected to last not more than one day. Shareholders or proxies attending the EGM are responsible for their own transportation and accommodation expenses.
- (J) Pursuant to Rule 13.39 (4) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, any vote of shareholders at a general meeting must be taken by way of poll. Accordingly, the chairman of the EGM will demand a poll in relation to all the proposed resolutions at the EGM.